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THE PROCESS OF RESIDENTIAL REAL ESTATE DEVELOPMENT

BY

THOMAS M. BOUCHER

A REPORT PRESENTED TO THE GRADUATE COMMITTEE
OF THE DEPARTMENT OF CIVIL ENGINEERING IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF MASTER OF ENGINEERING

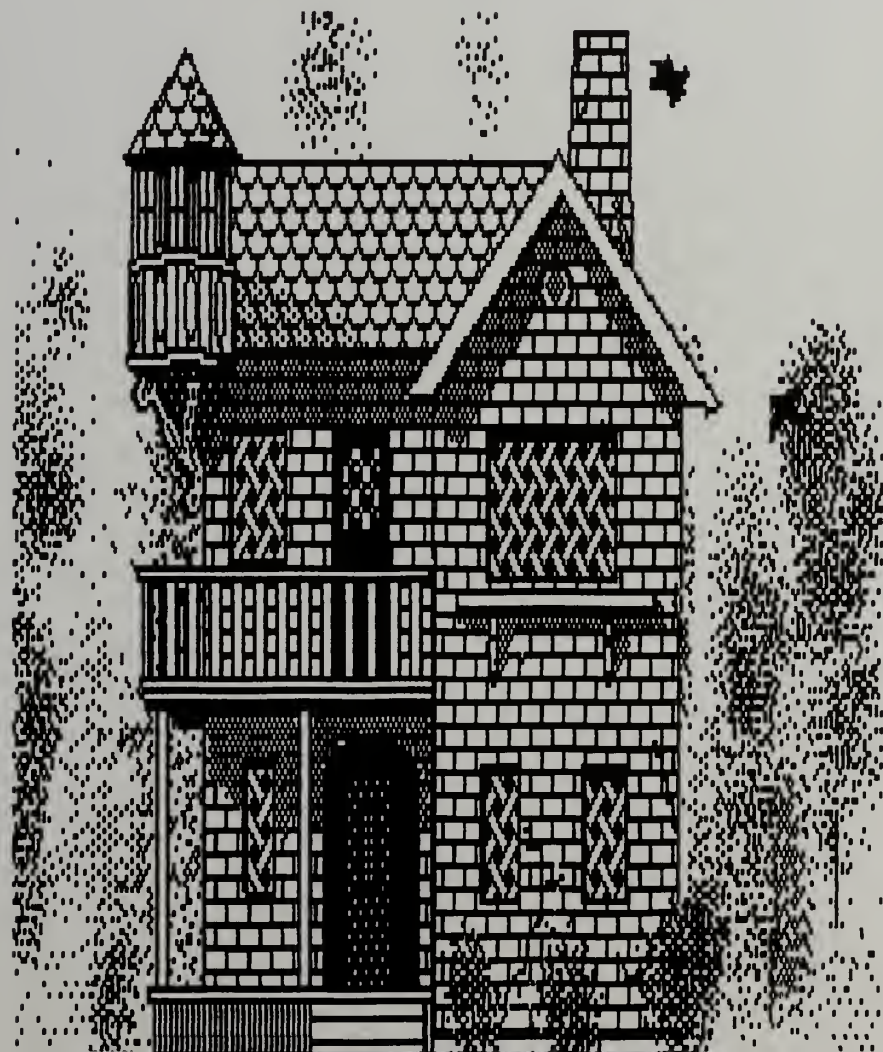
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The Process of Residential Real Estate Development

Thomas M. Boucher



To my beautiful wife, Julie
Without her tireless love and support,
Nothing would get done

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CHAPTER ONE

INTRODUCTION

The purpose of this report is to explore the process from a developer's perspective of how residential real estate is developed. I selected this topic because I have always had an interest in how this process is done. During the course of the construction management program, the relationship between the contractor, designer, and owner is continually discussed, usually from the perspective of the contractor or designer. But who is the owner in this relationship? What are his motivations? What has he had to do to decide where, how and what he was going to build? What does he do with it after the contractor completes it?

The process of real estate development is a very broad field, with everything from office buildings to stadiums to apartments. It also has many subfields such as financing, management, and rehabilitation. This is certainly much broader than the scope of a master's report. In an effort to narrow the scope, I selected the area of residential real estate because this is an area where much of development is done, particularly by smaller developers. It is also the area that I personally find the most interesting. Residential real estate covers both single family and multi-family housing, but while I was researching and writing

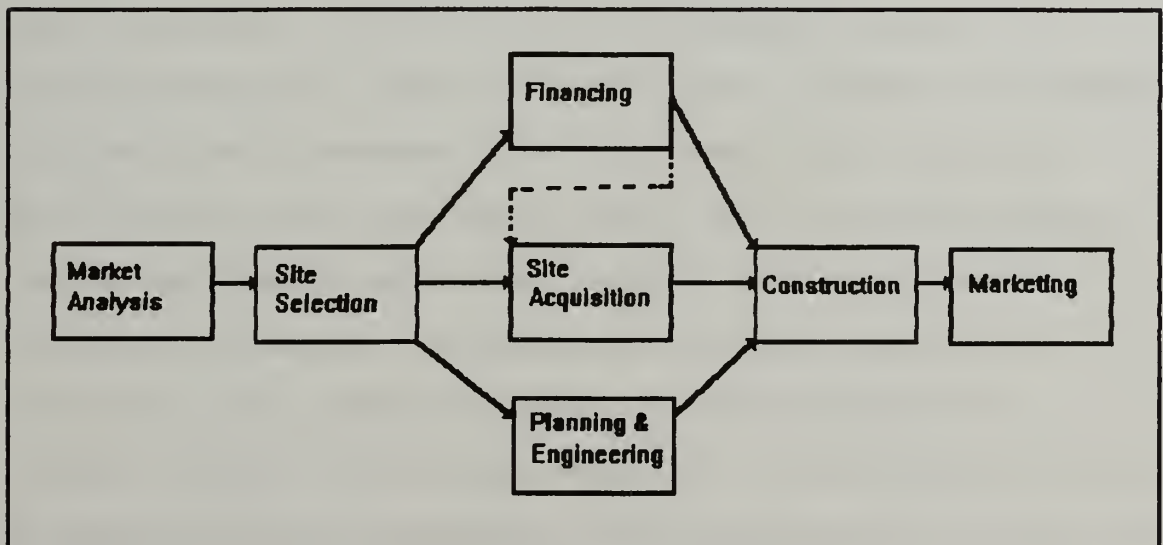
this, my thinking was generally along the lines of single-family housing. This makes little difference however, because the process of real estate development is very generic. The steps that are done for residential development are essentially the same for stadiums or office buildings. The differences are in the level of detail done in each of the steps.

I interviewed the two biggest residential developers in Gainesville for this report. One is the developer of the largest single development, the other co-owns the largest residential development company. The information they provided was key to this report. It was also the most enjoyable. Transcripts of the interviews are included in the appendices. The report starts by describing the seven steps of the development process, then goes into the decision making process (feasibility analysis), then discusses the risks involved, and finally who the key development professionals are.

CHAPTER TWO

STEPS OF THE DEVELOPMENT PROCESS

From the first consideration of a project, a developer must have a notion of what type of units to build and for whom to build them. But before he can begin he must locate and acquire land, arrange for financing, and obtain government approvals. Then he must build, market, and sell the units. A discussion of the development process can be thought of as a series of sequential steps that have to be undertaken. These steps are: Market analysis, site selection, site acquisition, planning and engineering, financing, construction, and marketing.



Development process depicted as a network. '- - - -' indicates financing may be required for land acquisition.

The process does not necessarily occur in an orderly fashion. Many of these steps run concurrently and not necessarily in the order given, but they all must occur. Some, such as financing, may happen throughout the life of the project as money becomes needed to buy land, build on it, and possibly even to sell it. There may be other steps required that are not covered, but any other step is likely to be a sub part of one of the following seven.

2.1 Step 1: Market Analysis

Prior to the decision to undertake any type of development, a developer must first conduct some kind of market analysis. This could be something as simple as a quick check with a local realtor to see if there is a demand for the type of product to be developed. Or, something quite complex that considers market area, economic trends, supply and demand indicators, market conditions, and feasibility factors. A developer is best served by developing in a market he knows and understands well (Pisani, 1989). If he doesn't have a strong intuitive sense of the area he is considering, then he should do as detailed a market analysis as he can afford for it is a guide that will indicate future saleability and profitability of the project. This information can then be looked at by any

financial backers and will set the theme for the eventual marketing of the end product.

The first step in market analysis is to define the market area. This will be the geographical area from which potential customers can be attracted. Within this geographical area the market can be further defined using demographic and socioeconomic factors to find an available market "niche" that can be exploited.

Once a market area has been chosen, current and future demand for any given product should be considered. Factors influencing this demand are employment levels, population, income, family size, household characteristics, tastes and preferences, transportation access, and whether the community is growing or shrinking (Barrett, 1982). A developer is able to influence some of these demand factors by his selection of site and the type of product he builds.

After the level of demand for housing has been determined, the current and future level of supply of housing should be analyzed in the market area. The housing supply consists of the existing housing inventory, units being renovated or rehabilitated and new construction. The housing units under construction are considered the developers direct competition. However, the key is to examine vacancy rates to determine if supply and demand are matched or out of balance (U. S. Department of Housing and Urban Development, 1980).

A key problem in determining the supply of housing is the length of time it takes to deliver housing to the market place from the point the developer determined that there was excess demand. During the process of market analysis, there may be several developers reading the same signals that indicate that an area is ripe for development. None of the developers are likely to be aware of the others and they may all bring products to the market at the same time. This could possibly result in a serious error in supply calculations. Factors affecting the supply of housing are the availability of suitable land, availability of financing, and the availability of labor and materials and their cost.

Both supply and demand are affected by conditions within the market area. These market conditions are factors that affect a developer's decision to develop. They are frequently associated with the local political climate toward developers. These factors include zoning ordinances, building codes, environmental concerns, and other regulations that have the potential to impact costs and construction schedules. Local labor practices (i.e. union or open shop) may also be of concern to a developer (U. S. Department of Housing and Urban Development, 1980).

Once a given market area's supply and demand for housing has been assessed and the general condition of the market has been determined, the feasibility of developing in

that market area can be determined. If an accurate study of the market has been done, exploitable niches may be uncovered even when the overall area seems to be a poor development prospect. An example of this is Robinshore's successful development of luxury apartments in a community dominated by student apartments. They found this to be an exploitable niche because there was no comparable housing in the area to satisfy the demand of young professionals seeking the apartment lifestyle.

A developer can look at many different areas and do market analysis on each until he finds one suitable for development. Perhaps a better strategy is to focus on one area and understand the market in that area thoroughly and completely. By "going with what you know" a developer is less likely to have made a mistake in the market analysis and will be able to take advantage of available opportunities and changes in market conditions. Robinshore has stayed in Gainesville and avoided a lucrative market in Jacksonville for precisely this reason.

2.2 Step 2: Site selection

Once the market analysis is completed, a site within the chosen geographic area can be selected. There are several factors that go into the selection of a site, but the most important is simply described with the realtor's axiom: Location, location, location.

Location is critical because it is going to define the development in terms of prestige, access, schools, shopping, and even employment. The prestige of a location can be defined by the surrounding area's social and economic character. If there is good transportation access to the site, a larger customer base will be attracted to the site. If access is poor, the site will be inconvenient to potential residents and there could be a large development cost to provide the necessary access, if it can be done at all. The aesthetic qualities of a site are affected by the surrounding environment and its proximity to schools, shopping and recreation opportunities. Past trends and surrounding land uses are valuable in determining a site's development potential (Bookout, 1990).

The aesthetic quality of a site should not be understated. How the site looks or even how it can be made to look can either add or detract to the value of the site. If a site's appearance, particularly at its entrance, is

attractive and pleasing this can increase unit sales prices and/or absorption rate. If the site is unattractive poor absorptions rates, lower unit sales prices could result. Robinshore has chosen its sites with this in mind and a large budget is given to the creation of attractive entrances to their subdivisions. A site's aesthetic appeal is usually a function of its location, however it can be created with appropriate design and landscaping, which requires the appropriate expenditure of resources.

When selecting a site, careful consideration should be given to physical characteristics. Inherent topographic, hydrologic and soil features of a site can substantially impact the cost and even what can be built. Different techniques and materials may be required in the construction process. The physical character of a site includes its vegetation and wildlife which can affect the aesthetics discussed above. A site may also contain wetlands or endangered species which carry legal ramifications which may hamper development (National Association of Home Builders, 1987). A site's physical characteristics are also a function of its location. Having poor physical characteristics is not always bad because sometimes they can be turned into an asset. For instance if a site contains wetlands, assuming development is approved preserving the wetlands, the wetlands can become part of the character of the site and be used in its marketing. Regulatory

restrictions imposed on wetlands will still make the development less economically feasible, but there can be a better opportunity to market the development.

When selecting a site it is also important to look at easements and covenants. Easements are usually mapped out on a plat while covenants are deed restrictions that exist between buyer and seller of a property. Both can significantly affect the property rights of the owner and must be paid attention to when considering the development of a site. Easements can be for access, maintenance, utilities, or other purposes. Covenants usually place some kind of limit on the use of the land. Easements and covenants can influence a development's design and can restrict or constrain the development considerably. Easements on a property can be identified by looking for evidence of utilities, either above or below ground, crossing the site, and roads or other travel ways over the site that may serve surrounding properties. This visual examination will not be sufficient to identify easements (and covenants) that may not be in use so a qualified attorney or title company should be hired to conduct a title search (Bookout, 1990).

A site's zoning is much like a covenant in its effect because zoning also restricts the type of development permissible on a site as well as the subsequent density. However, a developer can seek to change a site's zoning to

meet his needs. This should be done with caution. In areas that are well zoned, departing from the surrounding zoning can negatively affect the value of the site and raise the ire of the neighbors. Fortunately, in the case of residential development, it is considered benign when compared to other types of development such as industrial or commercial development.

The proximity of a site to available utility services is a critical consideration in selecting a site. Water, sewerage (both sanitary and storm), electricity, gas, telephone, and even the roads need to be available and close by. Without sufficient infrastructure available in these services, there will be considerable expense to provide them. Assuming that the capacity is available, there will still be a charge to hookup to these services. The amount of these charges and assessments need to be considered when selecting the site.

2.3 Step 3: Site Acquisition

Once a site has been selected for development, a developer must go about the process of acquiring it. Prior to actually developing a site, it is important to hedge the risks involved by knowing more about the site to ensure that the economic expectations of a site are accurate. This

should be done without expending large amounts of funds and discretely so as not to "tip your hand" to any potential competitors. So in some fashion the developer needs to control the site he is interested in. This is best done through the use of a purchase option.

An option agreement can be an inexpensive way to reserve a desired parcel of land. The agreement extends for a limited period of time during which the developer has the exclusive right to purchase the parcel at a specified price. This eliminates the problem with potential competitors while not incurring a significant cost to the developer. In some parts of the country through appropriate contract wording the cost of an option can be very little. In fact, Robinshore has been able to take options on land at zero up-front cost. Usually an option is made with a small cash payment and may include the cost of taxes and other carrying costs of the property during the option period. The details are determined in negotiations with the seller.

The length of the option period can be thirty days to six months or more depending on the size and complexity of the site. The option for the purchase of Haile Plantation was for 2 years. During the option period, detailed study of the site is conducted, economic feasibility analysis is done, plans drawn up, approvals applied for and received, and financing arranged. The most important step is the analysis that finalizes the site as the one to be developed.

As many of the other steps that go into development should be done to maximize the benefit of not being obligated to buy the property. After the final decision has been reached to develop the property, the option should be exercised. The price paid for by the land may or may not include money already paid under the option. The price may also be contingent upon the density that was approved for the land or other regulatory determinations, such as how much of the property is wetlands. It all depends on the deal that was negotiated with the seller.

If an option is not exercised, it may be possible to include in the purchase contract sufficient contingency clauses to mitigate risks. Such clauses may be for the receipt of land use planning and density approvals prior to purchase.

Purchasing prime development land can be a significant expense. One strategy that is used to reduce that expense is to take on the land owner as a partner and make the development project a joint venture. The land owner's contribution of property is paid for out of the proceeds from sales and profits at the end of the project. The developer provides his expertise and money. The potential downside of a joint venture is that the developer may have to give up some control of the project by taking the land owner on as a partner (U. S. Department of Housing and Urban Development, 1980).

Another way to control the land at reduced cost is to lease the property rather than purchase it. This is frequently done in commercial development, but does not seem to have much potential in residential development, particularly single family homes. However, a lease can be used as an interim measure during construction and marketing of the final product and when the individual houses are sold the part of the land lease that goes with it is paid off from the proceeds of the sale (Bookout, 1990).

2.4 Step 4: Planning and Engineering

A developer usually has an idea in his mind about what he wants to build on a given piece of property. However, it is the land use plan that is used to illustrate the idea. A developer first gathers site information such as topographic and boundary surveys, maps, aerial and ground photographs, and any soil information. From this he develops preliminary plans of the development. He may prepare several different strategies showing various densities, street locations, types of units, amenities, etc. He then selects the best strategy and submits the preliminary plan to the appropriate local government planning board, seeking approval to proceed. If a zoning change is required for the project, the developer will ask for this at this stage as well. The

board may or may not hold public hearings on his request (if a zoning change is requested there almost always is a public hearing). The board's response to this request will usually be preliminary approval or rejection. Frequently approval will be subject to conditions and a reason will be provided for rejection (U. S. Department of Housing and Urban Development, 1980).

Once preliminary approval has been obtained, the developer can proceed with final planning. This planning will be comparable to his preliminary plans and will begin to include some of the engineering design needed for the development. Streets, water, sewer, and other facilities will need to be designed along with drawings showing the number and types of housing and other facilities. If a developer uses different people for land planning and engineering, he needs to make sure that they are communicating with each other as well as have a good understanding of his goals. When the final plans are ready they are resubmitted to the board.

After reviewing the final plans and perhaps holding hearings again the local planning board will issue its ruling. If a developer had preliminary approval and complied with all conditions that may have been imposed, approval should be received. Unfortunately, local politics can become a factor and approval may be a problem. It is important for a developer to foster good community relations

and work closely with the local planning boards so that this does not become a problem. A developer should keep in mind that the approval process can take from a few months to several years so it is necessary that he be financially prepared and have factored this into the planning of his project. As an example, Haile Plantation's approval time was 20 months and cost \$300,000.

A developer needs to deal with many regulations while making his plans. Most communities have created comprehensive planning documents that indicate how the community would like to see development conducted. The comprehensive plan usually implements itself through zoning. While it may contain numerous other policies and procedures for the design of any development, the zoning is the legal device by which the actual property is regulated. Although the plan may be comprehensive, it is not necessarily permanent. Most communities intend it to be revised to reflect the changes in conditions, goals and attitudes of a community. If a developer complies with a community's comprehensive plan, he can expect to be successful in getting approvals. If he seeks to develop outside the comprehensive plan, he places himself at the whim of local politics and adds to the overall time of receiving approval.

Another way a community can regulate development is through the use of subdivision regulations. These

regulations control how raw land is subdivided into building sites, dictating layout and standards for lot-by-lot development. Once sold to individuals these regulations impact the subdivision much longer than zoning. Subdivision regulations can be considered a good thing for residential development because they safeguard a developer from a substandard development being constructed adjacent to his own well planned development and driving down property values (Bookout, 1990). The map that outlines a subdivision is called a plat and this is what gets approved and recorded when the developer receives final approval.

Other regulations a developer may have to deal with involve exactions and fees. An exaction is a dedication of land or other improvement to the public in exchange for approval of a developers project. They can include improvements to arterial streets, flood control facilities, sewage treatment plants, the construction of schools and parks, fire and police stations, or anything else deemed of public necessity that can be tied to an impact of the developer's project. Fees that a developer can pay might be called an impact fee, infrastructure fee, connection fee, development fee, or capital facility fee. These fees are payments assessed to recapture a proportional share of public capital costs required to provide public necessities. They are similar to an exaction but are used to pay for things not related to the development. Final approval of a

project is usually contingent upon meeting any imposed exactions or fees.

Once a developer has received final approval he must still obtain building permits. For these he is required to submit construction drawings showing that his intended products meet current building codes. A fee will have to be paid for the building permits as well.

2.5 Step 5: Financing

It has been said that if a developer can obtain financing, he will develop, no matter how good or bad the project. This may not be true in all cases, but certainly financing is a key factor to almost every development. This is due to the heavy reliance on borrowed funds in the industry. It is very uncommon for a developer to supply all of the funds necessary to undertake a project, so having a source of financing is very important to a real estate developer.

All types of financing can be categorized into two basic types, either equity financing or debt financing, with most projects using some form of both types. Equity financing is money raised through the sale of an interest (ownership) in the profits the project will make. This interest is usually unsecured and because of the high risk

involved, there is usually a high expected rate of return. Debt financing is money borrowed at some rate that is usually secured by the project and/or other assets held by the developer. The interest rate charged is a function of the lender's cost of capital and the perceived risk of the project.

Equity financing can be done through several different types of ownership forms, each with differing legal and tax consequences. The simplest and most common type of ownership is direct ownership. As a direct owner, a developer, also known as the sole proprietor, is entitled to all the profits, personally responsible for all the liabilities, and receives any and all tax benefits. As a sole proprietor, a developer stands to get the most rewards, however he also has no one with whom to share the risk.

Partnerships are another form of ownership. Partnerships consist of two or more persons or entities that organize to carry on a business for profit and share any profits or losses. A partnership can take on several organizational forms. It can be a syndication, joint venture, or other type of unincorporated association. It can also be a general or limited partnership. In a general partnership, all the partners share in the profits and losses of the project and in the management of the operation of the partnership's affairs. Each general partner is liable for the partnerships' actions and each partner's

actions can bind the partnership. In a limited partnership, while general partner(s) manage the partnership's affairs, limited partners are passive in the operation and cannot legally bind the partnership. A general partner's liability is unlimited, while a limited partner's liability is limited to the amount of their equity investment in the enterprise. An advantage of partnerships is that they are generally exempt from income taxes; income and taxable gains and losses are passed through to the partners and taxed at the individual level. This "pass through: taxation may be limited by federal income tax laws.

A corporation is another form of ownership. It is a legal taxable entity organized to carry on a profit making enterprise. A corporation is held by its shareholders who do not have any risks above the amount which they invested to purchase the stock (i.e. their pro-rata share of the equity ownership). Shareholders do not have the ability to bind the corporation and are able to transfer (sell) their shares should they decide to do so. A major advantage of a corporation is the limited liability of the shareholders and the ability to transfer ownership. A disadvantage is the double taxation of profits. All profits the corporation earns are subject to taxation prior to any disbursements to shareholders. The shareholders are then taxed when they receive these disbursements. Another disadvantage of the

corporation form is that any tax losses cannot be passed through to the shareholders.

A special type of corporation that can lessen these disadvantages is the subchapter S (of the IRS code) corporation. An S corporation is generally treated like a partnership in that its income, losses, and credits flow through to its shareholders. Unfortunately, there are numerous requirements and restrictions to function under an S corporation but for those that can qualify it can be the ownership form of choice for some developers and investors (Bookout, 1990).

Debt financing is also done through several different means depending on the stage of development. Debt financing can be done for land acquisition, land development, construction, and permanent financing. A common way to finance land acquisition is through the seller via a purchase money mortgage from the developer in lieu of cash. The seller will usually still require some cash from the developer, perhaps 10 to 30 percent. A seller's desire to enter into this kind of arrangement may be based on income tax considerations. An arrangement similar to this is a land contract where the seller retains the title to the land while giving the developer possession. Once most of the purchase price is paid, the deed is delivered to the developer. The developer gets to control the land in

exchange for a small downpayment. However if the developer defaults, the seller can repossess the land.

Developers can also get a land acquisition loan from a lender. However, due to the risky nature of real estate loans, many lenders will advance no more than two-thirds of the appraised value of the land and often much less. A lender will usually insist on the right of first refusal to provide construction and permanent financing for the project. They will also insist that the loan be recourse with the developer personally liable for the loan. Both Tom Robinson of Robinshore and Bob Kramer of Haile Plantation had to personally sign for development loans they received.

Land development and construction financing is usually obtained from some type of institutional lender. Because of the risky nature of construction lending, the rate on this type of loan will be higher than permanent debt financing. The term on the loan will be of short duration and the funds only drawn upon to coincide with the construction process. Construction loans are usually repaid in full when permanent financing is arranged. As in the land acquisition loan, the lender that provides construction financing will have the right of first refusal to provide the permanent financing. This will not be the case, however, if the proceeds from the sale of completed units are used to repay the construction loan, as in the case of single family housing.

Once the project is completed permanent financing can be arranged. This financing will normally pay off any land acquisition, development, and construction loans. The financing will use the underlying asset as security, will normally be at a lower interest rate due to the lower risk, and will be for a longer period, perhaps 30 or more years.

Finding a source of debt financing can be a significant hurdle for a developer. Some potential sources include: Savings and loan associations, commercial banks, insurance companies, Real Estate Investment Trusts (REITs), pension funds, and mortgage bankers (Miles, 1991). Regardless of from where the money comes, the importance of the relationship between the developer and lender cannot be understated. The relationship needs to be nurtured and cultivated so that financial support will still be there should the developer fall on hard times. Developers with superior track records and strong balance sheets will always find financing easier than those without. Those developers that don't have a demonstrable track record usually need to start small and begin to develop a good record.

2.6 Step 6: Construction

Of all the steps in development, construction is probably the most straightforward in terms of variations on

how it can be done. While there are many different techniques to construction, they all make improvements to the land and they do it in generally the same order. As long as the project has been properly planned, with contract drawings and specifications to be followed, the result will normally be forthcoming. That being said, a developer must still recognize that construction can still produce numerous problems if caution is not exercised, delays, poor workmanship, and other problems could result.

Normally construction is divided into the development of the land and construction of the individual housing units. The development of the land involves providing the infrastructure such as roads, drainage, water, sewer, and other utilities. It may also include the provision of amenities for the project such as swimming pools and tennis courts. Once the land has been improved it is generally divided into buildable lots or sites. These can then be sold to individuals or builders, or can be retained by the developer.

While many of the previous phases may be taking place simultaneously, the construction phase is rarely started until financing has been arranged. The cost of developing the land compared to its acquisition and other costs is very high. It may be possible to pull out of a project prior to construction, but once ground has been broken, the cost to pull out is high.

Unless a developer has a full construction company associated with him, it is common practice to subcontract for most, if not all of the required construction. A developer may retain a construction superintendent to oversee this part of the work. Or, he may hire a general contractor to do the entire job. The developer is not bound by any rules of public contracting so there is no requirement for him to award contracts to the "lowest responsive and responsible bidder". The most important requirement in awarding the contracts is getting a quality job, on schedule, at a price that allows for the developer to make money (within budget). Reputation, association, and contacts go a long way in providing for an adequate pool of contractors and subcontractors required for the developer to finish construction.

A developer may choose to not build upon the lots he has developed and may instead sell them to a home builder. The home building company is generally a small operation specializing in single family housing. They are usually not developers unless they are very large. Building companies generally have a corporate shell to protect against personal liability. Profit can be made in both developing lots and home construction. Whether the developer chooses to do it that way or specialize is a business decision to be made weighing the risks against the potential profits.

2.7 Step 7: Marketing

Once a developer has built his product, he must market it and sell it. This is where the "rubber meets the road", for if he can not sell what he has produced, he will not be in business for very long. Marketing must include the following functions: Review of market analysis, sales forecasting (absorption), profit planning and budgeting, marketing organization planning, and advertising and merchandising (Bookout, 1990). A developer should have a marketing strategy which defines how these marketing functions will be performed.

During the market analysis phase the developer should have learned something about market demand and should have incorporated this information into the product he was building. By knowing the expected absorption rate or sales forecast the developer will know how many units to bring to the market at a time. Having a low absorption rate or bringing too many units to market may mean financial hardship for a developer. The financing costs of carrying empty units can drive profits down significantly.

Organizationally, a developer may hire a real estate company to handle the marketing functions or he may set up his own marketing group. This is a business decision based on how he feels he will best be served in selling and staying in touch with the market. Either way, the real

estate network will be key to the advertising and promotion of the development. Newspaper seems to be the primary medium for a housing developer, but the best way to sell is for him to get people into his units. This is the strategy Robinshore relies upon. Having quality model homes and well planned home shows is important.

The marketing strategy must be adaptable and flexible to changing market conditions. As the tastes of consumers change, so too does the success of many a project. The marketing strategy must incorporate these changes and provide the developer with alternative ways to deal with them.

CHAPTER THREE

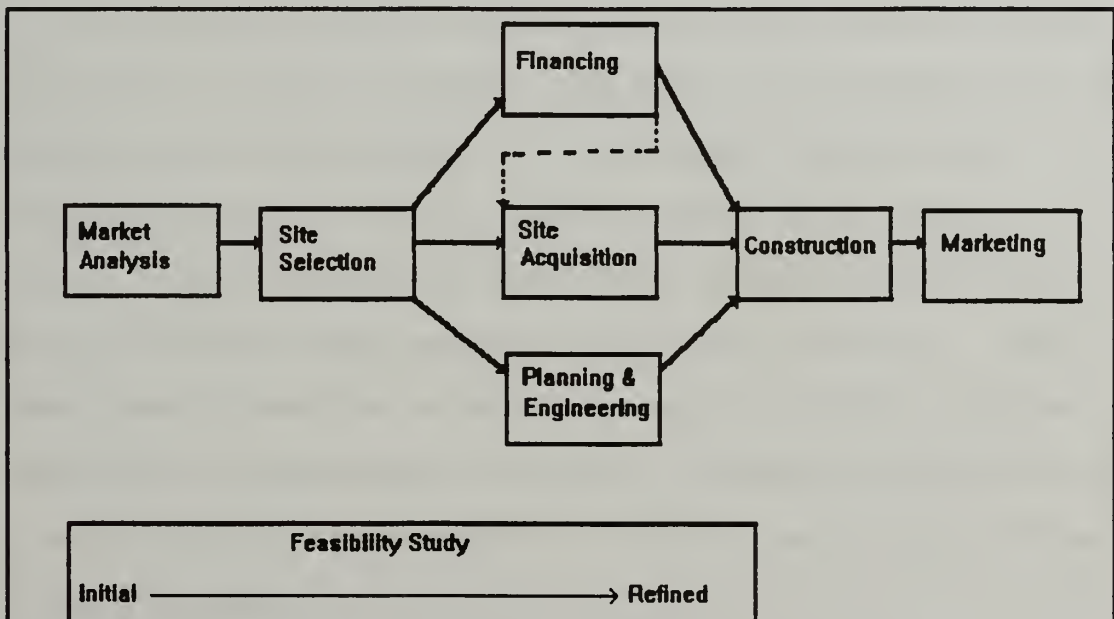
FEASIBILITY ANALYSIS

It is not enough for a developer to complete the seven steps to the process of development to achieve success. He must have some kind of feeling, whether it be instinct or educated, that the development will be successful. Many developers operate by "gut" feel and instinct, sure that their knowledge of the market and business ability will get them through. Other developers use a more methodical approach, doing a feasibility analysis of some kind to ensure that they do not make a mistake in choosing to develop. Some developers rely on both their instinct and a feasibility analysis to confirm what they suspected.

A good definition for a feasibility analysis is: "Feasibility analysis is a generic term [that] groups a variety of predevelopment studies by generalists and specialists in a systematic philosophy of inquiry to determine facts that are reliable, assumptions about the future that are consistent with past experiences, and tactics [that] will minimize the variance between objectives and variations" (Graaskamp, 1982, p. 13). The feasibility study will essentially incorporate cash flow and profit and loss estimates with consideration for demand, supply, and market conditions.

The feasibility study will only be as good as the assumptions that go into it and this is where a developers' intuition and instinct are helpful. However, if his instincts are poor, the feasibility study results may be questionable. A real danger lies in that if the feasibility analysis does prove to be negative, the assumptions could be erroneously changed to make the results positive. A feasibility study may also fail to accurately evaluate the management component of a contemplated project.

A feasibility study requires several steps, some of which are made up by the first phases of the development process discussed previously.



Development process with the level of detail of feasibility study indicated as process proceeds.

In fact, the feasibility study may be an ongoing process that can continue to take place over the course of the development process. The steps involved are: Assessing the physical characteristics and capabilities of a site, establishing the initial development concept, preparing a profile of the market and determining what it can afford to pay, delineating the market area in terms of location, determining the effect of regulatory practices on the desired development program, estimating development costs, analysis of the financial package, and a determination of the expected bottom line profit and rate of return (Bookout, 1990).

A developer may do several feasibility studies varying such things as site, product, and price to find what will be the most profitable project. A developer may do many feasibility studies before finding even a profitable project. Far better to do the study first than find out that the project that has been built will not sell. Many lenders and investors require that a feasibility study be completed to demonstrate a project's potential viability as a condition of providing funds. This is particularly true on large projects.

CHAPTER FOUR

RISK

A developer faces numerous risks in the process of development. These risks can generally be categorized as follows:

- The risk that the physical characteristics of the land that is purchased is not as expected. Poor soil conditions discovered after land acquisition would be a good example of this.

- The risk that government regulations prevent the use of the land as the developer intended. This could be by not giving the developer a desired zoning change or the placement of environmental controls on a development already in progress.

- The risk that the cost of development or construction varies significantly from that which was expected. A varying site condition or delay could be a cause of this.

- The risk that the project will not absorb as expected, drawing out the time to close out the project. Local economic factors or a change in consumer preferences can cause this to occur.

A developer can reduce some of these uncertainties by gathering information and acting on it accordingly. This is a key function of the feasibility study discussed above.

Other techniques may be to delay the purchase of land until government permission for the development is received or by buying land already zoned for the purpose intended. The risk of construction cost variations is commonly mitigated by adding a contingency into the construction budget.

What the developer is unable to control is the market. He may make predictions about the market, but because of the inevitable time-lag between the conception of the project and its completion, the developer is especially vulnerable to broadly based, local, social, economic and financial changes. This is where time becomes one of the problems with which a developer must contend. Changes in consumer preference, changes in economic outlook, and changes in interest rates are difficult to forecast over long periods of time and once a development project has been started it is difficult to change (Byrne, 1984).

Perhaps the best strategy to mitigate the risk of changing market conditions is to only develop enough land to meet the short term market demand. If a developer is properly positioned with a minimum of land carrying cost (interest, property taxes), he will be able to hang on during slow market periods. However, the danger of this is that if the market picks up he will be slow to respond with new land to build housing on due to the time lag in its development. By knowing and understanding the market in

which the developer is operating, he will be best able to decide when to slow down his pace of development.

CHAPTER FIVE

THE DEVELOPMENT TEAM

The development team is headed up by the developer. The developer can come from any background as long as he is willing to do it. The developers interviewed for this report came from a building/construction background and a architecture/land planning background. Being a developer requires that he be willing to risk some of his own (and usually others) money, have a thoughtful project backed up with believable market data, hire competent professionals and convince a lender to back him (Pisani, 1989).

There are numerous professions available to assist a developer. Among them are land planners, engineers, lawyers, appraisers, accountants, architects, contractors and construction managers, real estate agents, surveyors, insurance agents, and environmental consultants. While not all of these professions may be utilized, their services should at least be considered during the process of developing. The most important of these professionals is probably the land planner and engineer because they will create the essence of the development based upon the developer's goals. Their design will be a significant determinant of the cost and will have a significant effect on the overall aesthetic appeal and on the marketing of the

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project. Of the remaining professions, the lawyer is the most significant. The lawyer will handle the many contractual issues involved in the development process, not the least of which is the examination of title report, deed, and other settlement documents. An attorney specializing in real estate and development should be used.

Whatever professionals are used, they will form a team headed by the developer. It is important that a sense of teamwork is instilled and that the members understand the goals of the developer. Communication is important, not only so the developer can monitor the work of his team, but so that the other members know what each other is doing. If everyone understands their role and responsibilities, the chances of foul-ups and competition among members will be greatly reduced.

CHAPTER SIX

CONCLUSION

The construction of 1,000 single family homes generates 1,759 worker-years of employment in construction and construction-related industries; \$45.7 million in wages; \$18.8 million in combined federal, state and local tax revenues; \$1.6 million in local property taxes during the first year and \$19 million in local property taxes over 20 years (National Association of Home Builders, 1993). This is just a small component of the real estate industry. In fact, real estate as a whole counts for about 12% of the GDP (Gross Domestic Product). It is the owners and developers of real estate that are making this industry work. By understanding how they do their business and the risks involved, a greater appreciation can be had for what they do. The effects of government regulation, interest rate fluctuations and other influences can be seen by knowing how the business operates.

This report has looked at how a developer goes through the process of residential real estate development. The component steps were defined, the decision making process examined, risks and key players discussed. This report was not a comprehensive look at real estate development because the detail required to do so would fill volumes. Rather,

this report has explored the process the residential developer would generally follow for his project. There are no hard and fast rules in the business. But developers that do not follow some process similar to that discussed usually do not stay long in business.

The development business is unique in that there can be a fine line between success and disaster. Statistics do not exist which tell how many projects are profitable and how many are not, but it would not be unreasonable to assume that 50% of developers are not successful. This failure rate is probably ignored by most developers, for many rely on their own self confidence to see them through. Developers tend to feel their project will succeed, and for those that follow a proven system of development, this is probably true.

APPENDIX A

Interview with Tom Robinson

Co-owner of Robinshore, Inc.

Robinshore, Inc. is the largest residential development company in Gainesville, in terms of units produced per year. I had the pleasure of interviewing the founder and co-owner of this company, Tom Robinson, on June 7, 1993 in his office. It was a very interesting and informative experience. Tom Robinson seemed to be a very aggressive, self-confident, young man. This is evidenced by the success he has had in building and developing since he was 17 years old. He spoke very fast, with his ideas coming one after another which can be seen in the following transcript. Notations I made for clarity are indicated by a []. I hope you enjoy reading it as much as I enjoyed doing it.

The Interview

Author: Start with some biographical information as an introduction to the whole thing, like what's your background?

Robinson: I was born and raised in Gainesville, born at Alachua General. My Father was a developer, participated in real estate development in some of the larger areas of Gainesville. All of Northwood, Rock Creek, the Valley, many of the developments that were developed in the 1960's. I graduated from high school in 1977. Before I graduated I asked my dad if he would allow me to build a house, since I had worked for him since I was 13 or 14. He said yea and I built the thing with the intention of selling it. When I was 17 I sold it and another one like it and started

building houses and never got around to going to college. That was in 1977. In '80 I met up with Fred Shore who was 8 or 10 years older than I and he had been doing the same thing for two or three years. We decided to join forces and formed Robinshore in 1980. Since that time we've developed 1000 to 1500 units of apartments and we've probably developed 5 to 700 lots, single family lots and constructed houses on them. So we've had quite extensive development and construction in Gainseville. Today, we're probably the largest residential builder and developer, combination builder and developer in the county.

A: So you've never had any formal education in development?

R: Everything has been the school of hard knocks.

A: You consider yourself successful?

R: I think so.

A: It would seem so because you're still in business. Do you do any kind of market analysis for the properties you develop?

R: Probably not the formal type that you would think of, simply because we are in the market. Our market study is a day to day process. We've been building homes in this county for 16 years now and a market study is something we may do when we're doing a product that we have not done before or we're going to an area we are not familiar with. For example, we've done a lot of student apartments, about 3 years ago we thought we had a feeling because a lot of the people that were renting student apartments--we built Lakewood Villas and Spyglass which are kind of upper end student apartments--and we were having a lot of non students come in because they were the nicest places they could rent, period! Student or non student. Gainesville is pretty much dominated in the apartment market by student apartments. Many people said these are great units but there are too many students here and this is not a real compatible professional lifestyle, the location around the Oaks Mall [is not liked as much as] the northwest location. That was the first part of our market study, with the market telling us that. We did have a formal market study done, and it can...verify your thoughts, but being born and raised here, I don't put a lot of stock in it because I feel I have a better feel than somebody else coming from outside. If you're going into a county your not familiar with, they obviously have a great deal of validity. So our market study is more of a hands on deal that we participate in day in and day out and have for the last 16 years.

A: When you did your market study did a consultant do it?

R: Yea, William Webb from Jacksonville.

A: You must have had some feeling that was positive...

R: Oh yeah, we had a feeling and the market study ended up reinforcing our feeling. They get very specific and said we'd be able to rent X number of units--216 units in a given year which I thought was very interesting how they could come up with that.

A: Was that the kind of information you were looking for?

R: The most important information for this specific project was the number of what we would consider competitive type units. Non student units. We found out formally what we knew already, there had not been anything built for non students in northwest Gainesville for about 20 years. I own a few rental homes that are northwest. Moderate, 1500 square foot, \$600 or \$700 a month price and I owned two of them for about six years and neither of them went one night vacant. Now that's a very strong demand, in a house not an apartment, for a non student rental. The study did go the next step and survey about six or seven apartment complexes that we determined were close to what we were going to build as possible, but really since nothing's been built for 20 years nothing's even like what we built. We ended up building Huntington Lakes out on 39th Avenue, its 310 units. We built it in two phases and it was full before we finished it. It was totally leased prior to finishing the last units. Obviously we filled a real hole there. We're starting construction on another 300 units of apartments designed for the same profile market right around the corner where the new Publix is on 43rd.

A: Did you use any market studies for the subdivisions you've done?

R: No. The subdivisions we've done we don't do a market study. We deal very closely with the largest real estate company in town, Coldwell Banker. They control about a third of the market sales. We know how many units in specific price ranges there are so we know what the market is for new homes, what area of town... That's probably as much of a market study as we did. Living it day to day, I put much more validity in that and talking to our sales people and the reaction to buyers and traffic counts and different designs that people like. I would never waste money on a formal market study for a product I am in already.

A: So basically your market analysis has been done by knowing what's in your own backyard and taking advantage of it.

R: Exactly.

A: Have you recognized any market niches? You've built for students and non students, apartments, houses in a variety of prices in those that you've done.

R: Market niches are fluid. For example, in the early 80's, when the university placed a cap on enrollment, prior to that point, housing had always been a bit of a problem because the university was growing very rapidly and housing stock could barely keep up with demand. Therefore a lot of marginal product was built up until that time. We started our first of what we called our luxury student product in 1981. What happened, and I'll be the first to tell you it was not something we foresaw but something we lucked into. When the cap was placed on enrollment, obviously the university became much more stringent in the quality of student that was accepted. SAT scores soared. Right along with SAT scores was mom and dad's income. The average income of a mom and dad of a student at the University of Florida right now is \$78,000. That's pretty doggone high. It created a real demand for high quality student housing. That was a niche that we started. We were on the front end of that, pure luck I'll be the first to tell you, but we did exploit it from 1981 to 1988 when we built probably 800 units of what we call luxury student projects. Since that time and during that time other developers have done that. It was obvious after '81, it was purely a coincidence that we did. I'm not trying to act like a genius because we didn't foresee it, we were just in the right place at the time and benefitted from it. In our 'for sale', I don't know that we're a niche builder, I'd have to say that we're not. We are a production builder. The housing market in Gainesville is shaped like a pyramid in new home sales. The largest share of that at the lower end of the price spectrum, the smallest at the top, not unlike anywhere else. 50% of new home sales occur at about \$105,000 and down, \$80,000 to \$105,000 and down. That is where we focus our energies. We do have products that go up to \$150,000 but our primary focus is from 80 to about 120. That's where the meat of the market is, I wouldn't say that was a niche. We're a production builder, we're probably going to build 80 to 100 single family homes this year and about 160 multi-family units. We'll develop about 110 or 120 lots of which we'll be the user of 75% of those and we'll sell 25% of them. So with the apartments its more niche, we focused on the high end student for a good piece of the 80's. Now we're focusing on professionals. The luxury non student

market hasn't been catered to in quite some time. The 'for sale' single family we're just going after the meat of the market.

A: You do a lot of work in the northwest part of Gainesville.

R: Predominantly, yes.

A: How did you go about the process of site selection up there?

R: First off, about 75% of all new homes are sold in northwest Gainesville. Of the 25% sold in southwest Gainesville one area, one project, totally dominates.

A: Haile Plantation.

R: That's correct. So northwest is still where 75% of the people want to buy a new home. Land is scarce in northwest Gainesville, to be quite honest with you. We just completed a purchase this last summer of 150 acres that we are currently developing on northwest 43rd extension that was just completed in the last 6 to 8 months. We're also finishing up a project on 34th and 39th. To be honest with you our criteria for site selection was as close in as we could get it. We've developed Apple Tree which is on 53rd street, I guess.

A: Near Mile Run.

R: We didn't do Mile Run. Apple Tree is right next to Mile Run. We did Cherry Tree which is on 39th avenue. Close in, a good location. Sable Chase is 34th and 39th. Those were 20 to 30 acre developments, 70 to 80 lots and it got very expensive to develop something that small. Its a lot of time and effort to take it through the process and a lot of marketing effort just spread over 60 or 70 units it just got too expensive.

A: So you would prefer larger tracts of land?

R: Yeah. The degree of governmental regulation and the emphasis on marketing really makes it extremely difficult to make it very profitable just doing small developments. I think you'll see, in the financing as well, the trend towards larger tracts being developed. This has happened in other parts of the state and I think you're starting to see it happen here as well.

A: You've talked about the problem of land availability, there is a 95 acre tract right behind Sable Chase for sale, is the price a problem?

R: Well on that specific piece of property there are many variables. One of the most important, and that's why development is not a science, more of an art, is that picking an aesthetically pleasing, desirable feel for a project. You'll notice that land is basically treeless and the entrance to it, the access to it, is not shall we say one of the more attractive accesses. Across the street are some homes are visible and prices that are far less than what you would try to put there. So the feel, the value feel, the intangible if you will, of that site is a big concern there. Gainesville is a community that loves trees. I'm not saying that piece is not going to be developed, somebody will come along and develop it, I would not touch that.

A: No matter what the price?

R: I wouldn't say no matter what the price. But I know Mr. Sealand [sp?] and I know what the price is. He looks at what we paid next door for an entirely different scenario. The truth be known we probably overpaid for what's next door. It's a profitable project but if you look at everything in retrospect we probably paid a little too much money.

A: So when you go through the process of site selection the things that you are concerned about are aesthetics more than the realtor's axiom of location, location, location?

R: No. No, I wouldn't say that. They are both equally important. There's a trade off, if you will. 34th street from 39th north has a feel, a neighborhood feel, that is not what I personally, different developers are in different situations. From my perspective it is not conducive to the type of product that I want. What you try to get is some intangible value. Value that you can create through a feeling that people get. Through an entrance, if you will, you make a statement. You can create value by doing that. We looked at that piece of property and passed on it because of that. Who is to say what location is better. If you picked the middle of town, is the middle of town Main street and University avenue? Is the middle of town the Oaks Mall? Is the middle of town 43rd and 39th? 43rd and 16th? Where is the middle of town? We ended up buying the Millhopper Station piece, which from the middle of downtown Gainesville is probably 3 or 4 miles further out. I bet most people would say though that that location is better. You look at

the traffic on 34th at 8 o'clock in the morning, its not very pleasant.

A: Were you aware of the new Publix going in there when you were purchasing your piece and does that factor in the locational value you are achieving there.

R: Oh yes. A factor, yes. Would we have done it without Publix? Yes. It just adds...The whole 43rd, 39th, 53rd corridor that is just, for Gainesville, exploding. Its all part of that. We are part of that. We created that. We're a dynamic force out there. You're seeing that because its where the land is.

A: Do you try to forecast that to try to get ahead of where the development is going around Gainesville?

R: Sure, as best you can. The whole thing that's created this 43rd street thing is, behind that's where the remaining land is, is the extension of 43rd to 441, which will be complete by the end of the year, first of the year, when that builds out I think by Christmas time. That is going to make 43rd the major northwest access point to town other than 441. Its going to relieve a lot of pressure off of 441. A lot of people go 441, take a right on 34th, take a right on 39th. All that will be diverted.

A: Once you've selected your site what strategy do you follow for site acquisition? For instance, do you go through a process of taking an option on it or do you use contract....

R: It all depends. That's another intangible. It depends on the seller. You try to read the seller out. Is the seller a very motivated seller? Are they not motivated? What's the situation there? The best thing, what we try to do, is enter into a contract that allows us to have what we call an economic feasibility period. There's many things you have to do, check on water, sewer, to land use, to wetlands, to all these things that cost time and money, that you would really not rather do until you have that land tied up. Also, when you're snooping around trying to find these things out, you can tip your hand to competitors. So what you try to do is, as quiet as possible and without knowing a whole lot, to be quite honest with you is get the land tied up for no cost and do an economic feasibility. 30, 60, 90 days depending on the size of the property and the amount of research that has to be done. This is the due diligence period. Your sales price may even be based on the outcome of that due diligence. For example, if there is a lot of wetland on the property, you may say I'll pay you X amount an acre for everything above the jurisdictional

determination line. So before you can determine the sales price you have to get a jurisdictional determination. But you don't want to be spending money, sniffing around, tipping your hand, doing work without knowing you have the property tied up. What I like to see is a contract that locks it up with what we call economic feasibility. At that time you have to be able to answer all your questions. How much is usable, where the water and sewer is, any other land use, zoning problems, any environmental problems, any of that. You need to be prepared to have a relatively accurate site plan done. So obviously you need to know what your markets going to be so you can get a lot count so you can come up with some preliminary economic forecast. Then, once the economic feasibility is satisfied, assuming it is, an additional amount of time before you have to close to actually get the project or a piece of the project, in our case phase one or two of the project, ready to go before you close. So you don't have to start paying for that land before you're ready to start using it. That's the perfect scenario.

A: What incentive is there for a seller to go into a contract without any interest on your part?

R: First thing off the top, anybody owning land, any significant amount of land, understands that unless he's already got [a study], if the seller goes to the expense to answer a lot of these questions, for the buyer prior to the contract, a lot of the economic feasibility could be eliminated. That's typically not the case. Very few buyers out there are going to risk money for something that's unknown. There is a lot of research that has to go into it. That's a fairly standard clause, is the economic feasibility.

A: Is that not a cost to them to take it off the market while you're doing it, how are they reimbursed for that?

R: If the contract is not closed on then that's correct. Typically what the seller will say that's fine but you have to hand over all the documentation to me that you finish. Any surveys or any data that you assimilate you have to turn over to me if you don't close which is part of their consideration. Which is of value to them...to know what he has.

A: You see that as a fair trade?

R: Oh yeah. If I'm not going to buy it its useless to me.

A: What are your costs to conduct that information search?

R: Totally depends on the size of the property. On a 150 acres we probably spent, from having an environmental audit done, a phase one environmental audit, preliminary engineering, jurisdictional determination, land planning, I probably had anywhere from 25 to \$35,000 in it. The seller needs to know that he may not be getting 25 or \$30,000 but the buyer is sure spending it. That is commitment in of itself. That's a fairly, in Gainesville, a fairly accepted practice.

A: Who do you use to assist you in your search for land, do you use a realtor or your own forces?

R: I was born and raised here, I know as much as any of the realtors. We can look at plat books and available land. You just know what pieces are available. If a realtor happens to bring it to you, that's fine. Everybody knows that I'm always looking for property and realtors call me all the time with pieces of property. The ones that I actually go out and purchase I usually initiate the connection. The one we just purchased happened to have a realtor involved and he was working as an agent for the seller.

A: After you've selected a site and put the information together have you ever turned down any site as unsuitable?

R: Nothing that has been of any size. Maybe a small office site or something like that. Any prospective subdivision I can't think of one that we have. A lot of that is purely because we have such comprehensive local knowledge. We know pretty much what we're going to find going into it but we have to verify it. I don't want to be spending money without having that contract in concrete. A lot of times negotiation occurs during this economic feasibility. If I find something I'll say hey Mr. Seller, look what you got here, what are you going to do about this. The contract many times has been modified because of that. That happens quit a bit.

A: Have you ever considered taking the land owner on as a partner and not having to purchase the land?

R: Conceptually a time or two. It has been our experience that the land owner wants more than...Its cheaper to take him out. That is something that can occur. We haven't done it. In certain situations it would work very nicely. The development business has gotten so much more complicated over the last 10 years, many people, unless they are truly intimate with it, are not comfortable with the risk associated with it. We've not done it, it is a viable way to do it.

A: What about leasing? Some places they've used it as a way to control the land. Do you see that as a viable alternative for residential development?

R: I think you see that more in commercial development. I've had zero experience and I've never heard of a case in residential development where its been done. I couldn't comment on that. I don't see it on the horizon.

A: In your purchase contracts do you try to leave yourself an out? You talked about the economic feasibility, are there any others?

R: Typically there are two types. There's the economic feasibility condition which is very broad. The language is such that virtually if I decide to walk and not purchase up to that contingency date for any reason, any reason what so ever, I'm under no obligation to them. I get my binder back, I'm under no further obligation. That's condition number one and its the basic one. After that is when the binder typically becomes at risk. The only other contingency we try to put in there is a site planning approval contingency. I want to go through the governmental process as far as I can. That's not necessarily feasible if you're talking about a five year program that you're going to be site planning for five years. But if it was a single phase approval, then you'd want site plan approval. So the city says go to work then you close. If its going to be a multi-phased, multi-year project at least you want that first phase or two that you're going to start approved so that you know that you're going to get that. Residential development is relatively benign when it comes to existing home owner reaction. That's kind of the fear in our business is the NIMBY [Not In My Back Yard] theory. All the homeowners come out and say your not going to do this and put pressure on the city commission. Even though their zoning allows for it, even though their land use allows for it, they say no we don't want to do this and they find some obscure reason for turning the project down. We haven't had that problem but we have known others who have had that problem and that's something we're always concerned about. It's typically more for multi-family or commercial type developments. Usually people don't complain too loud about a subdivision going in right beside them. But you always want to go through the process because there are many loops or hoops and tricks that you can stumble on the way. So that was the only other contingency we try to put in there is a site plan approval or governmental approval for the first phase.

A: Once you have your site, what do you do for planning and engineering, do you have a consultant, do you do it in house?

R: We use two different firms. We use a land planning firm and an engineering firm for residential. The land planner and civil work closely together. The land planner is obviously more conceptual and when the engineer starts to firm things up it may start to change some of the land planner's concepts. I'm in the middle of all this obviously. Its a joint effort between a land planner who we use Lynn Buffington [sp?] here in town and a civil who is Gene Quinn [sp?] of Emerson Quinn [sp?] and myself. The three of us do that process.

A: You said you like to have some of that done before you actually acquire the land. How much do you usually have done?

R: Typically a site plan that our land planner has done and our engineer has blessed.

[Break, end of side 1]

R: Its very important that your professionals, the land planner and engineer, intimately understand what your trying to accomplish. There's many technical decisions that they're going to have to make that get translated into your product that unless everybody is thinking along the same lines can be misconstrued. A lot of the strength that we've had is team work and we've done it for quite some time.

A: How have local politics affected your planning decisions?

R: Local politics have played a significant part. Five years ago we would have been very skeptical about doing business inside the city limits. Everything we did was outside the city limits. The city had a reputation of being unreasonably anti-business and anti-development. That has changed dramatically. They're a reasonable group of people to work with now and the city commission is a very progressive city commission. That's not to say they're going to let you do anything you want, Lord knows that's not the truth. But they are not "anti" and they want and appreciate good quality development and that's what we do. We have developed a good relationship with the city of Gainesville because they know that we live up to what we say we're going to do. In the past sometimes an out of town developer may have not lived up to what he was supposed to do. We're local folks that were raised here. I was born here, my wife was born here. We have all family contacts in Gainesville.

We do what we're going to say, it's as simple as that. You do enough projects and you prove to the people that regulate you that you're as good as your word and you'll do as you say and there is a benefit to that. It all started with the change at the head and the city commission going from an anti-development, no growth, wall around the city of Gainesville, don't let anybody else in, which the people of Gainesville did not support that. It was crushing the city. It was taking money away from doing things that were good for the city. The parks, the arts and all that kind of stuff. I think people understood you have to have moderate growth to support the community.

A: Have they placed any restrictions on the number of units you wanted to do?

R: No, because what we're doing is pretty much vanilla single family. Nobody really complains about that, that's what Gainesville is. The multi-family, we only buy sites that are already zoned. Anymore, the city is land used. It may not be zoned, but the entire city has a land use. You can get it changed. There are times when you can, but we typically don't...we're not involved with that. We'll go buy a piece of property that is suitable, that's already zoned for the use.

A: When you're doing planning and engineering, is there a budget that you're keeping in mind?

R: Definitely.

A: How do you factor that into the planning? Is it something the engineer is aware of?

R: No, I'm aware of it. You do enough of it, you get a gut feel for what a road should cost per foot. The construction costs, I'm talking water lines, sewer, paving, storm water, curbing, anything that can be under construction contract. That is typically going to be at least 50% of the costs of the entire deal. Land is probably going to cost you another 25%. Then soft costs--engineering, land planning, governmental approvals, interest, entrance, you've seen the elaborate entrances that are the norm today, we sink a lot of money in those things, that pretty much makes up the other 25% of the cost. The intangible things you don't know about, how much underground you're going to have to put in, how much soil, you don't have an exact number but you have a gut feel going into it that as plans are developed, and you have more precise plans to work with, you get the handle on your budget. By the time you start construction you better be able to be within 1 or 2% or 3% of what your budget is. It needs to be cast

in concrete. The big number, the site work number, is. You don't start until you have a site work contract. You know what your land costs, you know what your construction costs are, you need to know what contingencies you may need to provide for. Do you hit clay and have to do some under cutting? Do you hit a high water table you didn't know about? Do you have money in there for under drain? You ain't going to be protected there. The other 25%, the entrance and all that, you got to do a few of them. It takes me, after I get the plans done, 2 or 3 hours to do a budget. Do enough of them, its easier than doing a house budget. A house budget has many more components in it.

A: What do you consider to be the biggest difficulty in the site conditions, is it the soil type?

R: In Gainesville, it has a extremely diverse soil type. Unbelievably diverse. Within a single geographic location. The site we're at right now, the water table can fluctuate 5 or 6 feet depending on the time of year. We have everything from pristine type A-3 soil material to gumbo clay that we have to haul out of there. That is probably the biggest concern. That's the biggest variable going in. Our site work contractor is the same one we've used since 1979, its Bud Thompson [sp?]. They are the oldest subdivision developers around. We get out there with their backhoe, get out there with the [inaudible]. During economic feasibility we get out there with the backhoe and start digging holes, see what we're dealing with. You know because of the area of town but it can change from one lot to the next. So you get as familiar as you can with that specific piece of property. You go down to southwest Gainesville and you've got lime rock and flintstone and bad clay out there, close to the surface. In northwest Gainesville typically the clay is 8 to 10 feet down. Just local knowledge that start to know after a period of time. The developing line is not for the faint hearted and its not an exact science.

A: Where do you obtain your financing from?

R: It can be done in various ways. Its a combination of equity financing and through a bank.

A: So what are the percentages that you usually keep in equity and how much are getting from the bank?

R: Well, as you probably know, the banking restrictions have tightened considerably in the last 2 or 3 years, during the credit crunch and all that. Three years ago, Four years ago, we could develop a project with just about all borrowed money and have very little equity in it. That's totally changed. Now I think you need to be prepared to have

between 20 and 30% of your own cash in a deal and that better not be all the cash you've got because something is going to come up you're going to need to fund. You may be able to recoup it down the road, but something is going to come up that you're going to need to fund. Typically I'd say 75% loan to cost, which translates into about 50%, 55% loan to retail value.

A: What kind of rate do you get on that money that you finance? Do you get prime, or?

R: Depends on what kind of borrower you are. Depends on what you can talk the bank into. Its totally negotiable.

A: Is it prime, or under or more?

R: You'd be a very good borrower to get prime in Gainesville. Probably prime plus one or two is what you're looking at. Prime, to prime plus one to prime plus two depending on the type of loan you're dealing with.

A: Do you try to nurture a relationship with a banker?

R: You better believe it. You better have that if you're going to be a developer. We had a very deep, long lasting, historical relationship with the biggest bank in town. That is an intangible asset, I'll put it that way. It doesn't show up on our financial statement, but I assure you its an asset.

A: Is your financing phased in any fashion?

R: Oh sure. Financing is just like home financing. You have the amount of the construction contract, the land, total amount of the improvements, let's say its a million dollars. Your part of its \$250,000 so you borrowed \$750,000. Typically your 250 is going to be the land and the costs you would pay up front. The loan is going to be broken down into 8 or 10 different segments. There's land, construction cost, planning or engineering, permitting, amenity package. I call it the amenity package which is the entrance, the bank, the fountain, and the ponds, and landscaping the entrance, and stuff like that. And interest. You have subtotals for each and you draw out of those as the money's being spent.

A: So is the bank giving you a credit line or do you try to use all the banks money first before putting in your 25% share?

R: No, your 25% is going in first to purchase the land. You can be sure your money is going in first.

A: How are you structured as a company to take advantage of any financial risks, taxes, are you a corporation?

R: We're a corporation. My partner and I own 50% apiece. In Gainesville, Florida, in this size of land development you really can't protect yourself too much. They're going to make you sign personally on the note as well as float the loan. So you're placing personal assets as well, typically. Now you start getting into the big boys doing 10 15 20 million dollar deals, development deals I bet most people are still either financing them totally through equity, or if they are borrowing money from a bank they're signing personally on it. Trump was signing personally on 100 million dollar deals. Where you get into not signing personally, is when you're doing more on an end loan, like on an apartment project or a shopping center. The type of construction where you have more institutional investors which our your lender, an insurance company or pension plan on which you can get a non recourse note.

A: Now you've done some apartments, so how did they differ?

R: We are not owners of apartments. We are purely a developer. For fee developer and builder of the apartments for a single investor.

A: So somebody else's credit?

R: Yes, exactly.

A: How does a deal like that come to you, do you bid on it?

R: No, individual relationship.

A: Up at Huntington Lakes, your development is side by side with Huntington with another developer's name on it. How did that come about?

R: Barry Rutenberg [sp?] developed the Huntington PUD if you will. It was 200 some odd acres. The front portion of that he had approved as multi-family on one side and on the other side, mostly multi-family and some commercial. We purchased the Huntington Lakes site from Barry Rutenberg, out of his PUD. It was always planned for apartments. He did the PUD, we simply purchased the property from him to build the apartments on.

A: You were cashed out when you finished them by selling?

R: I should say our investor bought the property and we built. We selected the site, we did all the stuff and acted as the developer for a single investor. He purchased it and we developed the site for him.

A: Have you ever considered any unusual methods of financing?

R: Yeah, we did an interesting deal. Its called the Quarries. I don't know if you know where the quarries is out in southwest Gainesville. A doctor owned that and tried to sell it and it was about 40 acres with about a 5 acre limestone quarry on it that has been inactive since the late sixties. Actually the material that came out of it was what I-75 was built with in the early sixties. He was having a very tough time having to find a buyer for it because its such a unique property. In high school, every now and then, I used to not go to school on summer days and go swimming out there. Its kind of a party hole, if you will. He came to us and said I want you to develop this, I want you to buy it and develop it. So we went out there, and it has some beautiful views, and it had some potential, but it also had a very high risk factor. So I said we're not interested in buying it. He said man, I've been trying to sell this thing, just think of something. I said I'll get back to you. So I was talking to Fred and said I'm not interested in this at all, there's only one way in hell I'd do this, and that's if he deeds us the land free and clear, no obligation. We then borrow the money. Obviously since the land is free and clear you reduce your exposure by about 25 or on that deal by about 35%. We'll borrow the money for the improvements, and if and when we sell lots, we'll give him part of the profit. So if we don't sell any lots he ain't getting nothing for his land. If we sell the lots for no profit, and we have to dump the lots, get rid of the things, there's no money, then he's giving his land away. Fred said he'll never go for that, I said I know he won't go for that but then we won't have to talk to him anymore. But he went for it and that's how we did that deal. Usually an owner's participation is very different. In owner's participation we would figure the land into the cost and assign a value to the land. A lot of times an owner may participate and the land is his equity. But this is not the case. The land got no value. A very real difference, the land got no value. What he got out of the deal was his half of the profit when you used a cost that had no land in it. Its very different from saying coughing my money up when you have to figure X amount per lot for the land. [Half of the profits] he got paid for the land. As it worked out he probably got about as much as he would have otherwise, and he couldn't find a buyer otherwise. So it was a low exposure deal for us. It didn't absorb as quickly as we had

hoped. It just reinforced our emphasis on being conservative on that deal.

A: And he had a huge risk.

R: Well, his risk wasn't as big as ours. We had to borrow half a million dollars. His land was only worth 250. We had to go sign notes personally for half a million dollars. He only had to put up \$250,000 worth of assets, so who took a bigger risk?

A: Probably him.

R: You say him?

A: It seems to me that if you had to dump the lots, he was getting nothing, you would probably recoup your costs when you're dumping them.

R: What if there is absolutely no buyer? You're signed personally.

A: At that point, you are.

R: There's no right or wrong, deals are structured differently all day long. Its whatever you can negotiate and its whatever is fair to both parties. But when you're signing personally, I don't care if you're putting cash in or not, when you're signing personally, for notes, your putting your assets on the line. The worst case scenario is the bank will come after your assets.

A: Its clever how you add the 'ets' in 'assets'. You've said that you retained 75% of the lots for your own work and sell the other 25%. Do you have an actual standing construction company?

R: Oh yeah. Actually the construction company is Robinshore incorporated. Most of our developments are being done in a partnership right now called Millhopper Station. Millhopper Station sells lots to Robinshore. When I say we sell develop 75% and sell 25%, that's going to be product related. In the lower end product, we're going to do 100% of the lots. The higher the product marches the more likely we are to invite other builders in, and that's where we start selling more lots.

A: What is the size of your construction company, Robinshore?

R: I don't know, we probably have 20, 30, 40, 50 people working for us. We sub out most everything. Nobody is

going to sell 85 houses this year in Gainesville. Next closest will be about 35. They may be a little bit larger homes, but I doubt seriously, forget the apartments, but we're going to sell about eight and a half million dollars worth of houses this year. We're not the typical when you look at the number of employees.

A: How do you go about selecting your subs and contractors, through relationship, or?

R: When you've been in business for 16 years, you have a reputation for paying that bill every single time its due, and being fair, and running a good job. The smoother a job runs the more money a sub can make, he's got to come back less times. We have a reputation for running a very well organized job and the money's there every other friday when we pay. So a lot of the subs we have we've had for 10 years. There are subs that don't do any work for anybody but us. When a sub starts to get weak, we've got 5 guys that have been bugging us for a year and a half to take their place. You can't just start a building company and be what we are. We work very long and very hard, when we started our companies my office was a pick-up truck. I built footers and I poured them and I framed them, I roofed them, I painted them, landscape, I did everything. Fred did too when he first started. Our office was our pick-up truck. You've got to build a company like this over a length of time. All our subs, we work very closely with them, they know they can depend on us for their money so we get the best price and the best service.

A: Have you ever done any bidding contracts?

R: When we did the apartments, we pretty much go to bid. That's a different deal because we have a fiduciary relationship or fiduciary responsibility to our investor to get the best job for the least amount of money. We may show a little bit of preferable treatment to a long time sub but that preferable treatment is not going to be anymore than this is what you need to do it for. We're not going to pay him anymore money, but this is what you need to get [price] to do it. The apartment job will be bid out from nails to paint. The houses, the production houses we're building are much more, you know, we know a 1400 square foot house needs two and a half ton A/C unit. I don't care the layout of the plan, a two and a half ton A/C job is worth \$1422. Plumbing is \$200 per fixture, you've got two toilets, two sinks, its a done deal. Its a pre-arrived at price with our subs.

A: When you're in the construction part of the project, what do you consider the most difficult part?

R: The most crucial? I think you have to say the framing. I mean the framing has got to be right. The slab obviously has got to be right but the slab is easier to get right than the framing. When you build a house, if you think about it, you see the walls being stood up and the trusses being put on, the plywood. That's the most crucial part is the framing.

A: The foundation is less?

R: Probably second. Its got to be right as well. You can't do the frame without a foundation. There are a lot fewer components, you've got concrete block and concrete.

A: Have you done any kind of construction phasing?

R: Yeah, at Millhopper Station we'll probably have between five or six different phases. Part of its a totally different product, we segregate product type. Part of its because we don't want to bring on more lots than we think we can use in a given time. Obviously, the larger the piece of property, the more phases you're going to have. There is no sense bringing on, developing a number of lots its going to take you three years to absorb. The perfect situation for us, I think, is to bring on enough lots to last you 12 to 18 months. Its a steady enough absorption so it takes about 6 months from the time know that we need to start another phase until the time we can start building houses. So you see when you're six months out you start another phase. Now you caught, just like we just finished getting caught. We started a phase to carry on another phase and we has an unbelievable first quarter of the year. Basically depleted our lot supply and we've run out of lots. We're going to have a two month time period where we really don't have any lot inventory. That's obviously very damaging to your absorption. The other side of that is you bring on too many, and that damage can be much worse, having too many. You always want to be a little more conservative than liberal.

A: You said you used Coldwell Banker for your sales....

R: Basically subcontracted out our entire sales and marketing effort to Coldwell Banker.

A: Have you tried to influence the marketing campaign with your knowledge of the sites and the information you collected when you selected the site?

R: We work very closely with them. We have weekly meetings with them. They have sales staff that man our sites specifically. There are two or three sales people

that work only for us, in the Coldwell Banker organization. We have weekly sales meetings with them and we work more closely with them than any other person we work with. Consulting with them on what floor plans to start, what price home we should start, marketing campaign. We leave it up to them, they discuss it with us, we have veto power, but we are performance oriented. We don't try to micro manage. The reason they're doing it, we used to do it ourselves, we used to do all our house marketing and all our new house sales. We weren't good at it. They were better than us. We made the determination, it will be a very unusual situation when I second guess them. We set our budget that we have for marketing and they stay within it, they can pretty much do what they want to do. I may make comments but I am performance oriented. You get the job done, if you keep the number of sales up, you do whatever the hell you think you do best.

A: So if you set up a budget for them, are they not on a commission basis?

R: That's a budget on their advertising. They're on commission, total commission, but they also handle our advertising for us.

A: That's in addition to their commission?

R: Yes.

A: So I would expect you to pay less than the normal commission rate?

R: Well....we're their biggest account.

A: What kind of method do you use to advertise?

R: Predominantly newspaper. We also are a big believer in home shows. They cost money to put on but that gets the public out to see your product. Sales and marketing are not the same thing. Two different things. Marketing is getting bodies out to your product. Sales is writing a contract. There's two distinctly different objectives there. Its easy to market your project, that's not the big thing. Sales is the much more difficult thing. You have to be a good sales person, you have to have a good product, from location to interior design. Gainesville is a small enough community, there's nobody that's going to spend \$90,000 on a new home without knowing about us and not giving us a look see. We are the biggest, most dominant, presence in the market so we're going to get that. The market's not that complicated, we just have a newspaper presence just because its obligatory.

A: Your strategy is basically you expect someone to see your product and to like your product?

R: That's why we're doing it, that's why we build them. We think we do enough specific market research, getting feedback from our sales people. Did they like the shower design? Did they like this elevation? How do they like the colors in this? Its a constant feedback we have. I visit my models all the time. Jack Greer, our vice president for production, is basically in charge of that whole effort. He meets with every owner. Every owner gets a set of plans drawn for them. Jack talks with them, he gets their feedback, sees what they like. So it is a daily feed back that we get from them that determines what we want to produce in a project. No they didn't like that floor plan, we won't build it again. We sold that one three times, lets build it again. They like the blue, they don't like the red. And it changes, what's hot this period isn't hot the next three month period. You're model center is where your rubber meets the road. That's where your consumer is critiquing your product and accepting it or rejecting it. That is the most critical part of our business is understanding that those people come through those models once.

A: Have you heard of Total Quality Management?

R: The new buzz word of quality, you mean? Is it time and all that? Sure, everybody's heard of that. I'd like to think that's not new. Not new to us. We've always strived to do as high a quality job as we can. We never think that we're doing the best job we can. We can always do better. Every project we do we think is better than the last because we've learned from the last project. I think the biggest thing you've got to combat, and I'd like to think we've done a decent job in doing that, is mere complacency. Continuing to involve. We implement new, many organizational and procedural systems all the time, all the time. We try to stream line the process that we do.

[Break, end of side 2]

R: What did you call it, total quality control?

A: Total Quality Management, or TQM.

R: I'm probably not intimately familiar with it, but what I've seen, is that a lot of the big corporations that have market dominance do get complacent. They start losing that and they've got to look for something to refocus our energies. And you've heard of a lot of companies that are successful straight on through this and those are the ones

that have been able to evolve and change as the circumstances change and that's what you're talking about. How to be the best you can be.

A: We've covered seven steps in the process of development. We've covered market analysis, site selection, site acquisition, planning and engineering, financing, construction, and marketing. Is there any part of the process that's been left out in the discussion?

R: Yeah, the most important. Intuitive ability is the best way that I know how to describe it. All of the things you discussed are very important, they need to be handled appropriately and adhered to. But unless you have intuitive ability to understand what the market wants, how to provide for it at a price that they can afford, at an amount that you can make a profit on, all the rest of that is horse hockey. I don't know any other way to say it. I think that we've demonstrated we have that. I don't know how you teach it, I don't know how in the world to teach it.

A: You consider that the most difficult thing to do?

R: Absolutely, absolutely.

A: A lot has been made of doing a feasibility study, you've talked about it, does not that intuitive sense go into doing a feasibility study?

R: You better believe it. But when you're talking exclusively residential development....its easy for me, I was born and raised in Gainesville, I know what's going on here. I have a gut feel, I have an intuitive ability to produce this. If I were to go someplace else, and we looked into going to Jacksonville about 6 or 7 years ago, and I got to tell you it was very difficult, we didn't even put contracts on the land, and my level of discomfort was so high that we quit doing it. It just didn't have that. There is no way in the world that I'd of hired some guy, paid him \$5,000 or \$10,000 or whatever to do a market study for him to say OK this is what you ought to do. And based upon that go do what it takes to do a development. The only way I'd of done that is if it was coincidental that I have that same degree of comfort. That guy or that study was not going to give me any more degree of comfort. Now when you're talking about some sort of institution, or a football stadium, or a shopping mall, that's a whole different ball game than when you're talking about developing single family homes. You can go in, and you need to know how many new homes are sold in that market each year, how many builders are catering to that market, where the accessible land is, how much the land costs, what is the price structure? Of

the percentage of the market, how many are between 80 and 90,000, 90 and 100, 100 and 110, and so on and so forth. Understand the guts of that market. It doesn't take an Einstein, if you take a look at a particular market, there's 50 homes in a price segment and you develop 500 lots in that price segment and think you're going to sell them in 2 years, you probably screwed up. So you need to know the nuts and bolts of it. Anybody, you don't need a market study to tell you that, that information's available readily at the board of realtors and the county, you know housing starts, you can find that information yourself. Having somebody put all that together for you....We would do that ourselves. It doesn't replace the intuitive ability that you've got to have in a market. I'll be honest with you, even in Jacksonville, which is a very decent market, it's still a home boy market, and I don't feel very comfortable coming there, the size we were. It's one thing for a corporate building company that has millions of dollars of assets, where the guys making decisions aren't signing personally on notes and all that. It's one thing to screw up and say whoops, we screwed up, and the next step's not the welfare line. As a small developer that's what we look at every day. It's got to go through a hell of a damn litmus test for us to get into it. Our level of comfort just wasn't there, and there ain't no way in hell some feasibility study is going to give me a level of comfort if I don't have it. Now that's said in a very narrow context of developing lots in Gainesville Florida, understand that. If I had the financial resources to expand outward without having to risk my personal net worth, now it's a different ball game, that's a different situation. You're going to find that a real estate developer, there's very few residential real estate developers that are public companies. Throughout the country they're made up of people like me. Local people with local knowledge. You see those big public developing companies, they don't develop lots, they buy them from the local developer. There's too much local knowledge that's needed there, local contacts, and too many unknowns that can bite you. All the big companies buy lots from a local developer in the markets that they're in. The absolute lions share of residential building lots are developed by local people or relatively local people.

A: Does your lender require any kind of study to get the money? Or do they just consider the equity you put in enough?

R: They consider our track record, I think much more than that. The most important thing in our relationship with our lender is our track record of knowing what to provide to the market. Knowing that this is the twelfth deal we've done with them and every one of them has gone fine. Knowing the

financial controls that we have internally. Knowing the conservative nature that we approach things. Very few real estate developers have the backing we have, an institution like a bank. I'd say the most important thing the bank looks at when they loan money to us is our relationship. Not how much money we have in the bank, which is important, that's very important, but just because you've got a bunch of money in the bank doesn't mean they're going to loan the money to do a project if you don't know what you're doing. I think our track record is one of our biggest strengths when it comes to borrowing money for our developments

A: What type of people make up your developing team? You are from a builder's background.

R: I predominantly develop. Our corporation is structured so that we have a vice president of production that is responsible for the day to day building operation. What I do is primarily develop. The first development I did was when I was 19 years old in 1980. It was a small one, but I've been doing them ever since. My most important people from a development stand point are my engineer and my land planner. Now the lender, obviously is important, but I know what I can spend from him and I know the parameters I can deal with. Obviously, you have to have a good attorney, that's very knowledgeable in local real estate. I've had the same attorney since day one, a very close friend of mine. But the two most important, from a land development aspect, are your land planner and engineer, especially your engineer. Its very easy for an engineer to put on his blinders. Just because it works means it looks worth a damn. Its easy for a land planner to say it looks good but who knows if it works? You have to have both a land planner and engineer that have some experience and respect for the other's trade, so that they're not trying to design something that's so damn unreasonable you can't build it efficiently and an engineer who is not so static, not so plain, who is not going to destroy all the aesthetic value. That's important, we've been using the same guys for ten years and they're very good. That's your team. Obviously you have a sales and marketing team, that's a given. Assuming that its a product that you know when you're going out there. Our land planner is also a landscape architect, so he does all our landscape of the entrances, so he's land planning with all this in mind.

A: How about an accountant? Do you figure in tax consequences?

R: Yeah, we obviously have accountants and all that. My accountant told me a long time ago you make the money, I'll worry about reducing taxes. There's not a whole lot you can

do any more to eliminate tax liability. There are certain things and we do those certain things, but its pretty much make as much money as you can and let your accountant take care of you.

A: Is there some part of this process of development that you wish there was some service you could buy, some consultant, so you wouldn't have to do it?

R: Yeah, I wish I could hire somebody so that I wouldn't have to deal with the bureaucrats. But that won't happen.

A: The land planner doesn't?

R: That's something that I nurture with the bureaucrats and the city people. They can only trust me and I can only deliver on my word and only I can make those decisions, no one can make it for me.....But I enjoy it. Its a very interesting career, it can keep you up a lot of nights. There's a million details. The more successful you are the more you learn to limit your financial exposure which is vastly critical today. Its a very rewarding business. I take great pleasure at looking at a finished product with families enjoying their homes, kids out in the streets riding their bikes, petting their dogs and living the American dream. And I don't give a damn what all these environmentalists and no-growthers say, people like to live in their own home. I'm as much as an environmentalist as anybody else and we do a very nice job in our projects. We landscape them beautifully, they are a very pleasing place for humans to go. That's very gratifying.

A: What is your feeling on environmental regulations, concurrency, and what do you do to mitigate NIMBY's, Not In My Back Yard?

R: Like I said, what we do is probably as benign as you get in the development business. We're not trying to place nuclear power plants or million square foot shopping malls, or factories that are not very attractive. So we don't really have as much trouble with that as a lot of people. I think that the thing that is most disturbing is that sometimes is the overkill on the environmental protection. We need environmental protection, there's no doubt about that. And, to be honest with you, we need concurrency. We need to make sure that the infrastructure that's needed to service development is in place. Not doing that is very short sighted. I don't want to be like other places in the state of Florida where you dread getting in your car to go anywhere because traffic is going to be so bad. Or, that your water quality is not what it should be. So concurrency is not a bad thing. Its easy for me to say that because

Gainesville's probably one of the best communities in the state for having not having any concurrency problems, because we have grown very slowly and steadily in comparison to the rest of the state. The utilities, GRU has done a very, very good job of keeping far enough ahead of development demands for electric, water, and sewer, and not getting so far ahead that they have enormous amounts of unused capacity. They have to be commended, they've had some very good general managers of the utility, they have one now. So Gainesville really an ideal place to do what we do. Its not so big a market that it draws the big boys in. I guess what bothers me about environmental issues is that a lot of people out there that cloak themselves in environmentalism when their real intent is something else. That real intent is basically, some people, a very small amount of people, have a vision of Gainesville as a isolated utopia. It can be closed off and unaffected. They're typically tenured professors that don't have to worry about making a paycheck, to be quite blunt. They're not people in the private sector that need job creation. We've learned that, we've been through that in the late 70's and early 80's. That is behind us, the city of Gainesville is a very progressive city, they know they have to create jobs. We have a tremendous poverty problem here that needs to be taken care of. It can only be taken care of with jobs, not with handouts. Everybody knows that. Another important issue is obvious. When people stymie good job creation, that's a bigger crime than anything else.

A: Where do you see the greatest risks in the development process? Is it in the beginning, or getting sales, interest costs you have to bear while under construction?

R: Well, obviously the biggest risk of all is the market risk. That is, is the market going to continue. Is the state budget going to get so bad that they have to cut jobs from the university? The university is our factory. The university and medical center, that's our factory, that's what drives the economy of this community. Its a great factory to have, it doesn't pollute, its steady as hell, and its reasonably well paying. The biggest concern is, is there anything out there on the horizon to jeopardize that? That's a concern whether you're selling widgets or houses or bicycles. More specific to our industry, I think the biggest risk is increased governmental regulation. When you're looking to buy a large piece of property, you may not develop parts of it for years. Four, five, six, seven, eight years. You're not sure what kind of regulatory environment you're going to be working in then. I think its pretty safe to say that every regulation costs somebody something. The risk is that regulations price you out of where the market is. Land development in general, I'd say

that is the biggest risk. From a financial aspect, every deal is structured differently. We try to do ours where our biggest financial exposures are short term financial exposures. Meaning, I borrow money, pay cash for the land so that even if you don't use the land for five or ten years, you don't have to pay interest on that. What you're borrowing is for improvements you're going to use in a very short period of time. Hopefully you can absorb them in one year. You don't develop too far past where the market is, so that if there does become, lord help us, a blip in the university or a downturn in employment or whatever, you don't have 300 lots and three million dollars worth of loans out there. You've got maybe 50 lots and half a million dollars in loans, or something that's much easier to swallow because the biggest that loan turns over very quickly. If you borrow \$15,000 a lot for 50 lots, that's \$750,000. You're projecting that to turn over in one year that 750 is gone. If you're going to pay a million five or two million dollars for your land, and its not going to be absorbed for five or six or seven years and you borrowed that, you're hung forever. That's why you pay cash for the land, the proper strategy if you can, or you pay as much cash for the land. Make the long term debt, the land debt, when you go into a multi phased project, make the long term debt be as small as possible and short term debt you rollover very quickly. So if you see a cloud on the horizon, drop prices, sell the loan off, get out and wait. So you can control the financial to a certain degree. Not totally, but depending on your ability and the way you structure it you have more control over the financial exposure than you do the regulatory exposure.

A: How do you mitigate that governmental risk?

R: They're making it harder and harder every day. It used to be that once you started a project you could call yourself vested and you pretty much could operate under those rules. That's gone out the window. They'll change the ball game on you very quickly. If you have a large enough piece of property, you can do a planned development. That locks in a significant portion of what you need, density, and it locks in some regulation, not all of them. It also makes you spend more money up front, and can lock you into a product that when it comes time to do it you may not have had in mind to put it there. Then you have to go through a bunch of steps to redo that. So it drives the costs up, going the planned development route as opposed to straight zoning. All-in-all though, you minimize the regulatory exposure more so, not completely by any stretch of the imagination, but more so by going the planned development route.

A: Have you done one?

R: What we did, with those 150 acres, we got a [special permit] that allowed us to lock in storm water rules as of August, 1992. I'm not sure you're able to do that anymore. They may have been given for five years, so if you were going to develop for longer than five years you may be exposed there. The size obviously has a lot to do with it, simply because the larger the project the more lots you're going to have and the longer its going to take to absorb. So that is one of the downfalls about doing something large. Although one of the obvious things is that the land is going to be much cheaper on a per acre basis than a smaller, and you're going to get economies of scale that you wouldn't get on smaller projects.

A: For your typical size of project, what kind of time frame is there from the time you've selected a site and acquired it until its sold out?

R: It all depends. On a 75 lot subdivision, two or three years. Now we've gained a market share and the markets improved dramatically in the last couple years. This 150 acres which is going to be 300 lots, we may do that in about four years. A lot of that has to do with we have a superior location right now and we went from a company that built 30 or 35 houses a year to 85 houses a year plus we're probably going to sell another 30 or 40 lots to other builders. So the market has increased and we're catching a bigger piece of it. We're a growing company, we are increasing our market share every day. A lot of that has to do with the piece of land you pick. That's how important....If we had picked another piece of property, your 95 acres owned by Sealand, I don't think we'd capture an increased market share like we've been capturing.

[End of interview]

APPENDIX B

Interview with Bob Kramer

Developer of Haile Plantation

Haile Plantation is the largest single development in the Gainesville area. I had the pleasure to interview the developer of this project, Bob Kramer, at his office in the Haile Plantation sales office on June 17, 1993. He was very pleasant and cooperative. His emphasis on the development process is slightly different from Tom Robinson's because he has a long standing development and has not had to go through the initial steps of development in some time. Bob Kramer is a soft speaker so there was some difficulty in transcribing the interview from the tape recordings. Wherever possible I included the best interpretation as I recalled it or noted that it was inaudible in [] during the course of the transcript.

The Interview

Author: I'd like to start with you providing some biographical information on yourself and some background on how you came into developing.

Kramer: I'm a registered architect and practiced in South Florida for about 10 years with a couple partners. I had a number of real estate developers as clients and one of my partners was involved in real estate development. We both had an interest in doing a large scale project so as we were working we were looking for opportunities to get into real estate development and construction ourselves. [inaudible]

We spent some spare time taking trips and looking at various sites we had heard about. We were particularly interested in Gainesville and Tallahassee because of their growth at the time. The growth of both universities, particularly the university of Florida, was pretty steady and vigorous at the time and the communities were building around them. This was in the late seventies. [inaudible] It seemed like I was going to be the one involved in more of the day to day involvements in the project if we did it so I was looking for a place to live too. Gainesville was certainly the best choice. Anyway, my partner took over my practice of architecture and we eventually put this project together and I've been doing that exclusively for the past 15 years.

A: Its been a good business? You're still in business.....

K: Its been difficult at times because when we first began development in 1980 as we finished our first 95 lots interest rates, the prime rate was 23.5%. We started a building program with a number of local builders buying lots from us and they were unable to get financing to do spec home and that sort of thing so we became the major builder of that [neighborhood]. We never expected to do that but we had built several other houses before other builders became involved in it. Its just in the last five or six years that we've had other builders involved.

A: Before you came here you were looking at Gainesville and other areas. What was the depth of your market analysis for those areas?

K: We really only looked at very sketchy information available at the chamber of commerce and local planners, institutional planning council, and that sort of thing. We did not do detailed market studies of either of the primary markets that we were looking at. The planning information that was available from planning agencies was adequate for long range planning. Short term, a market study probably would have been helpful to identify the market demand and needs in the short term. But for a 15 to 20 year project the general pattern of growth, the environmental conditions that you have to deal with and that sort of thing are more important. The stability of the economy is especially important because of percentage of total employment is somehow government based in the University or hospitals or other state agencies, here and in Tallahassee. It makes for a fairly stable economy with less unemployment in varying degrees [than a recession].

A: Did you get any professionals to assist you in your assessment, or did you do it yourself?

K: Ourselves.

A: How do you stay current in the market with the products you offer?

K: There's not a real scientific method that's used. We stay current by keeping actively involved with the most active realtors in town, by having 10 or 12 builders in our builder program which each have their own understanding of the market and by having our own real estate operation that follows the MLS computer listings and sales information and building permit tracking and plat recording that keep you pretty well up with the market. We've managed to maintain a pretty good share of the marketplace in the past few years.

A: Do you find yourself in any market niche here?

K: We try to cover as much of the market as we can. The number of housing starts in Alachua County is not that great and this is a large project with a significant number a year. We try to provide 6 different products at all times if we can in a price range from 50's up to over 400,000. We develop neighborhoods within the master plan that will allow for that variety of product.

A: So you span the entire market?

K: Not completely, but as much as we think is reasonable for this market.

A: What made you come to select this site for Haile Plantation?

K: We were looking for a very large tract, at least a section of land. We were interested specifically in building a long term project that would be properly planned and developed. Over an extended period of time, we weren't looking for a quick in and out site, that's not the goal. We knew that it would take at least a section of land. Basically we worked from the perimeter of Alachua County inward. There were many parcels, large parcels, available at the edges of the county in the more rural areas. We ruled out areas that were environmentally sensitive or controlled by large land owners, like timber companies, that were less likely to carve out a smaller portion of their land. There were certain other factors of concern, major highways and that sort of thing being the primary concern. And infrastructure in general, where the infrastructure was where the county and regional utilities had planned for growth and concentrated on that quadrant of the county that seemed to be the new planning district for growth. That was this site. The west and southwest of Alachua County in the

late seventies was seen as the direction of growth. We started to focus on where we could find land that met our means. As we went through tax maps that the county had, a parcel that was owned by one family, the Haile family, and we contacted them directly, I believe. They weren't particularly interested in selling. So through a real estate broker that we met who knew the family introduced again, convinced them to listen to what we had to say. It took us probably over a year to make an option to purchase the land. They were not interested in seeing their land destroyed by developers and that sort of thing and they were very concerned about the kind of plan we were going to build there. Their first concern was that we were going to build a trailer park because development along Archer road had been that type of development. They had no idea what Haile Plantation would become in fact originally they did not want us to use their name. They didn't want us to use the Haile name until they saw the plan of what we were going to do. So we had a focus on this property, and found that they would be willing to negotiate an option. We never seriously considered other pieces of property, except one which we have just finally acquired, north of us which we were originally going to buy instead of this one but didn't buy it. For 15 years now have been looking at it as a potential expansion site and just recently come to own it.

A: So land availability was a problem because you actually had to seek out a piece not for sale?

K: It wasn't so much as a problem but for a large project like this with several land owners involved, bidding against each other and that sort of thing, it could of been much more difficult. We were fortunate only to deal with two land owners. We did have a second land owner at our entrance on Tower road and we had to buy 80 acres from an adjacent property owner who was also a developer and knew that our utilities and our major access so we might have paid a little more for it.

A: When you selected this site did it fit with what realtors say, the most important thing is location, location, location?

K: Haile Plantation is location, location, location now. We felt that we could make it that. It wasn't at the time although there was active development along Tower road. [Several developments] had been developed at about the time that we were just started, so growth was happening and there was some active development. We felt that we had a large enough project that we could create our own environment and it would draw [people to it].

A: When you met with the Haile family were you using any strategy in negotiation? Was it money, desire for a family legacy?

K: We sat in their living room, ate milk and cookies, and talked for many hours about what we were going to do. There was no pressure, just to get a better understanding on their part of what we were going to do and how we saw the development. They had had no experience with it. The only other developers in real estate....The models they had saw for development in the area were certainly not something that we didn't intend to do. We couldn't convince them until we produced plans and so on that we weren't, it just took a lot of time.

A: How did the real estate broker factor into the situation?

K: Just an introduction.

A: You took an option initially, what were you looking at during the option period?

K: We knew that we would have to go through a Development of Regional Impact review. We felt that because of the number of acres involved and the density of the project we would have to go through that process. We had guessed that it might take a couple of years to go through. So we asked for and received a 24 month option, so we would have time to have the zoning changed from agricultural zoning to planned unit development and to go through the review of the state and local planning agency and regional planning council.

A: Did you pay for the option up front or was it part of the overall package of the purchase contract?

K: We paid for it as we went from month to month. We had the right to cancel it if we found something, an obstacle in the development process or whatever.

A: Perhaps you could describe a DRI, the steps you had to take at that time?

K: A Development of Regional Impact at the time was a little different than it is today. Today the steps would be obsolete. The regional planning council, the Northwest Regional Planning Council [?] was the agency responsible for the coordinating of the review of impacts on the region. The regional planning council would make recommendations to Alachua County as the local planning agency in the state's Department of Community Affairs as to any impacts that we did have, either economic, environmental, or impacts of

surfaces and infrastructure that might be regional in nature, that affect other counties in the region. There were 16 counties [involved] with impacts on the transportation and traffic network that would affect funding in other counties because of money that had to be spent in Alachua County due to traffic impacts of our project that we would see the regional impact and we would have to deal with mitigation of that impact. The process was very expensive and time consuming. Many issues have to be dealt with, environmental, archeological surveys, traffic, transportation, economic impact statements, housing impact, what you're going to do to local builders and the housing market, that sort of thing, traffic, power, drainage, utilities, schools, fire, police protection, all that needs to be evaluated.

A: During the option period were you looking for anything that might exclude it from development?

K: Sure, all through that process, that's basically what the planning process is in terms of seeing what obstacles there are that you have to overcome. That might include soil conditions, ground water, or ecological conditions.

A: Was there anything specific to this site that you found that was of concern, but with which you went ahead anyway?

K: The one environmental concern that there was was addressed in the design of our plan and that had to do with the potential for sink holes. To exclude a specific site in north Florida due to that, you wouldn't build in north Florida. The potential for sink holes exists everywhere in north Florida. There are some ancient sinks on the property that were very beautiful and we planned around them and made them common areas and conservation areas and the monitoring of excavations and that sort of thing as we went along to protect against future sinkholes which is an important part of the process.

A: Once you decided to exercise your option, were there any other features in your purchase contract that gave you an out?

K: We had the family hold a 15 year mortgage for the purchase of the property. I guess we had the right to not purchase all the property. We had no personal guarantee, no personal liability on the mortgage and could have defaulted with no penalty. The worst case back out position that would be looked at...normally a developer would not be looking to do that. But that was it.

A: Did you do all your own planning and engineering for this site or did you hire someone?

K: We did our own planning, we had to hire an engineering firm to do engineering, primarily civil engineering and surveying, it was a combined firm. Most of the work was done by us with a couple of architects involved from time to time. We'd do the planning and they'd do the details and drawings.

A: During the 24 month option period was all the planning completed, or was it just conceptually complete?

K: It was conceptually done, land use drawings, a master plan, which we had always. We didn't do any specific planning of neighborhoods. In each of the areas within Haile Plantation we didn't have road geometries...only general plans.

A: What costs were involved in your preacquisition activities? You talked about the DRI, were there any others?

K: No, that was enough. It was over \$300,000.

A: Did local politics affect your planning at all?

K: I wouldn't say so. We had our own meetings with adjacent homeowners and homeowner's associations and groups that were interested in what this large project was going to do to their neighborhood, long before public hearings were scheduled. We found that was a most effective means. At those meetings we found people that were opposed or had made comments and questions and we would invite them then to personal private meetings. We never got to the point of voting no, we would spend as much time as it would take, as many weeks as it took to explain the project, to work it through with them, to try to answer their questions and their negative comments. That was probably the most critical thing in the planning process, the preparation for that [vote] of the group. In fact, one of the ladies that we had one of our first meetings with in an adjacent subdivision is our top sales person now and has been for several years. There are people that have no idea, that we come in cold, we were not local people, with all the negative things they hear about developers, they see the worst case.

A: At what point did you put together a budget?

K: That's an ongoing thing.

A: What was the biggest difficulty of developing the site, was it the sink holes, or something else?

K: No, not at all, that's really not that much of a difficulty. I'd say that, in a strictly development cost, that would be cleaning out the clay and limerock that we encounter from time to time. Its expensive to move and replace with other less expensive material. Its a continuing problem. The golf course that we have under construction has helped to solve that problem because we have been able to put all that material on the golf course and excavate some better material and separate the stuff that was not needed. That's what you deal with in development anywhere and we certainly don't have very bad conditions here in Gainesville, but that is a [problem] you still have to deal with.

A: So was a golf course always planned for this project?

K: No, not always planned. We had a very extensive amount of open space planned for the project and for many years tried to get a golf course. Originally, we had expected to have the option for the golf course and not to commit to a golf course, so we included the open space and it would probably get built.

A: What is the acreage of Haile Plantation?

K: 1073.

A: How many lots have you planned for it?

K: We were permitted 3500 development units. That included multifamily and high density development. It'll probably end up about slightly more than half that. We never expected to build 3500 units but the zoning provided for that.

A: Your option was for two years, was that how long it took to receive all the approvals?

K: I think we made it in about 20 months or so.

A: Where did you obtain your financing to put this project together?

K: To begin with it was mostly our own funds and an investment partner invested with us, and then loans from our partners who did development work and after the first couple of neighborhoods we established a line of credit with a bank one of the partners had a long relationship with. A few years ago that bank was taken over by First Union Bank,

since then the relationship has gotten to be much more formal than it has in the past. We still work with that successor to that bank.

A: So your financing initially was almost all equity financing through partners?

K: We did use construction loans from a bank.

A: In the purchase money mortgage with the Haile family, can you give a sense of what percent was financed in that mortgage to what percent was in the development costs which you did through equity?

K: You're talking about buying a thousand acres and only developing in the first phase 60 acres. The initial take down under these provisions of the mortgage was much more than what we were going to develop initially. I'm not sure you can relate development costs to the purchase as you would because it would be over 15 years. I'm not sure I can answer that very accurately for you.

A: You have several partners, how is your company structured, a partnership, a corporation?

K: Both. We hold land as a partnership and then we sell the land to our development company as we develop it.

A: You feel that's best because of tax consequences or what?

K: It was set up that way initially but its probably less important now.

A: What do you consider most important, liability considerations, or is it that way just because that's the way you've done it?

K: Just because that's the way its convenient to the company. The goals have changed...the tax consequences, exposure has changed over the years.

[End of side 1]

A: Your relationship with your bank has become more formal, has there been any nurturing of a relationship there, or has it been a hands off affair?

K: No, I think it has been a more workable arrangement that we have now than we did when we first got involved with this most recent competitor, the bank they acquired, than the first bank that we worked with. That type of situation

where you inherit somebody else's loans, working through details of how they handled the loan, what they didn't do right, the documentation that wasn't there, and that sort of thing. The type of relationship you have is important too and the banks are very conservative in their real estate offices, and I guess we're able to get loans because we have that as an advantage. [Inaudible] but it has been a reasonably good relationship.

A: You didn't have to sign personally with the Haile family, have you had to do so with the bank loans?

K: Definitely.

A: What kind of interest rate have you been able to negotiate, has it been prime or better or worse?

K: Usually one over prime for development.

A: Have you done any unusual methods of financing or has it all been through the bank and your partners?

K: We did a couple of joint ventures with a large home builder from south Florida that was associated with a regional timber and paper company. They provided all the construction financing. It was a good arrangement, they wanted to branch out in Florida into as many markets as they could and try to reach a certain amount of units of production per year. We did all the construction and development for them. [inaudible] It was all their money so we came out pretty well. They've gone out of business since then.

A: So that was a significant reduction in risk for you?

K: Absolutely.

A: You said that you did a lot of the homes yourself, how much of the construction do you do now?

K: Maybe 25% or 30%

A: What is the size of your construction force?

K: Very small construction crews because we subcontract as most homebuilders do in Alachua County. Subcontract most everything but the finish parts and a couple laborers, a superintendent, service, and call back, a couple salesmen, the administrative people, usually less than 10 people.

A: When you do contracting do you do it through bids or are your subcontractors long standing subs?

K: They are longstanding, and occasionally we will bid out new models to several different subcontractors. Occasionally we will change subcontractors, especially now that there are several builders, 10 or 12 builders working out here, there are more subcontractors available, more subcontractors to bid on every project that you would consider. We have changed our operation a little bit, we now have 2 or 3 companies working for us where we used to have the same company for 10 years.

A: Do you do anything in the way of quality?

K: We have one person, that is his job specifically, customer service and punch out of jobs, follow up with the buyer, that's all that he does, it's his full time job.

A: Have you heard of the phrase Total Quality Management or TQM?

K: Very little, heard of it, wish I knew more.

A: Are your neighborhoods what you would consider your phases of development?

K: We have had a phasing plan which confuses things a little bit. It didn't have any relationship to the real development pattern. Its unfortunate but planning agencies said....you have to be careful what you call it because phases can be done in a large neighborhood. You might have 120 lots that you may develop in 3 or 4 phases, in a single neighborhood. There's no specific phasing plan that we're following as far as the infrastructure and trying to do it in fairly small increments.

A: You established your own realty company to market Haile Plantation and handle sales, has that been workable?

K: For a couple of years we listed property with one of the local realtors who had a large share of the market in general real estate and specialized in doing builder's homes and that sort of thing. They provided a full time on site sales manager and a person to staff the office. After a couple years it became obvious that we had enough business that we could support our own sales staff, at least start our own sales operations, so we hired one of those people they provided. He's been our sales manager for 10 years or so and [we have] four associates. At times we sell other real estate. We represent some of the builders in Haile Plantation, not all of them, at least in some of the neighborhoods. Occasionally we do resales, but that's not a big part of our business.

A: How do you go about the process of marketing Haile Plantation?

K: Primarily through local realtors and builders network that they have from sales. That's one of the advantages of having so many people involved. We're very cooperative with local realtors in general real estate in Gainesville. We supply as much information as we can to them. We are focused on the local market. We have at times done some marketing targeted at retirees in various areas of the country. It's very expensive to do that and very difficult to get people to Gainesville instead of south Florida. But we've had some success with that, it seems to be occurring more on its own, we're spending very little money on that directly. We advertise information in the Gainesville Sun and a few other minor publications. Most of it through the realtor network and the connections of the associates here.

A: You rely on your builders on site to provide the marketing input into the product types, does that get tied back into the marketing campaign at all?

K: It's a continuing process. The builder that was in here before you was talking about lots they need 18 months from now, the kind of product they expect to be building. If they had them today that would be fine, we have lots prepared for them today that they are going to purchase. They're concerned but that's why we have a group of builders that we work with and meet with a couple of times a month to get their input, so we can do planning. Engineering and permitting takes a very long time. From the initial indication of some demand to get the product produced is 18 to 24 months. We are constantly getting information from builders so we can respond to the market. We seem to have guessed right so far, we haven't done too bad. We try to keep a full range of products and keep the size of community, down to at least a reasonable supply, so we don't overload, have too much of an inventory.

A: Where do you see the major competition in the sale of your development?

K: There are developments in the northwest [that compete]. There are no large scale developments like this. A lot of times people that are looking for a house, don't look at that, they look from house to house, not at northwest to southwest. The one thing that's been difficult to overcome over the years is that understanding the changing growth patterns of Gainesville by a lot of the builders. The northwest had been the primary growth area until the Oaks Mall developed and I-75, then the growth started to move to southwest Gainesville, then builders have been and still do

direct people to the northwest and we have had to overcome that at times.

A: How many lots do you sell a year?

K: Around 100.

A: How many of those are built with Haile Corporation homes on them.

K: 25, maybe 30, sometimes a little more, 35.

A: Where do you see the most profit being generated, developing lots or building on them?

K: If you had a choice to build the most profitable project you'd build that [exclusively]. But the market won't do that. Its trying to keep a fairly full range of products and not all of those products produce the same margins for construction, nor for development. An average small subdivision lot is very difficult to produce for the price it takes to produce a house, a 2000 square foot house, at the market and be competitive with the other one shot projects that have no major infrastructure, no acreage, no amenities, so its expensive to be competitive. That's tough, its even tougher to build a whole package. We have tried to specialize in things like patio homes and zero lot lines and so on with a little more flexibility. We do more of that and sell more of the standard lots to builders for them to build their own.

A: We've gone through seven steps of development, market analysis, site selection, site acquisition, planning and engineering, financing, construction, and marketing. Do you think these are important and are there any other steps that we did not cover?

K: No I think those are the seven basic steps. The financial ability to do a project and to have the risk spread to people that can either take it or to several investors is probably the most critical in doing a large scale project like this. All the rest of it you can get through but there are times when patience and the ability to understand the time it takes to get through the development process and the unknowns that can come up.

A: You see having the patience and the financing as the most difficult problems?

K: To do a large scale project, absolutely. Many investors are not willing to wait for a long time for the

returns, for one thing. In this kind of project it doesn't happen overnight.

A: You've been doing this for 15 years, how long did it take to become profitable?

K: We were profitable on the houses almost immediately, but the return on investment that we had planned took between 5 and 7 years.

A: Was there any kind of feasibility done? What made you so sure that you could come and do this and make money and have it as a career for the next two decades of your life? Was it intuitive ability, or something else?

K: No, we didn't know anything, we had no idea. We hoped that it would work. My partner and I were both young men at the time and we were fortunate enough to have found a partner who had the ability to hold on in tough times of the project and had about 50 years experience in developing and building in south Florida and was retired and interested in this type of project but not as an active partner. We were very fortunate to have that kind of partner. We couldn't have done it with a typical development partner or financial partner who wanted an immediate return. This wouldn't have happened without somebody like that, who understood the development process, who understood that tomorrow we might find we have a one year delay in the development process somewhere. Everything that you do to study the product, the property, the development, is great but you do that, constantly watch for financing. Its not one of your steps, definitely an important preview. Most of the time that's not what have developers have done.

A: So it was this individuals experience and no formal study....?

K: We did tons of predictions and spreadsheets and we all convinced ourselves that it was a sure thing, but what the hell, you never know if its going to work out, especially when faced with the very high interest rates that there were when we began development.

A: Somebody once told me that it was the invention of the spread sheet that created a good portion of the real estate bust because investors and developers could convince themselves that they could make money just by changing a few figures in the spread sheet when those figures had no real basis.

K: I believe that. You can't believe any of those numbers. But we never took ourselves too seriously when

putting those numbers into production. You have to be able to respond to the market and to some extent be prepared to weather those times when the market isn't there.

A: Have any lenders required any sort of study or projections?

K: No lenders that understood the project. Actually, we had one serious market study done to try to understand the potential to try marketing to the out of state retiree market. We wasted \$25,000 on that [inaudible]. In a nutshell we wasted money. It was done by the top market research firm.

A: It was a waste because it told you something you already knew, or something that was garbage and you wouldn't do any way?

K: We tried to follow its guidance as best we could. What we received was a lot of information that we had already and their recommendations were standard textbook recommendations that you could get from the Urban Land Institute that would tell you the plans on how to market to retirees. It was just an overdone study by far, compiling information that is very easy to acquire with very little expense and we generally compile it anyway. Some of the large deals that did go bust, had that type of market studies like that. That doesn't mean as a developer you shouldn't know all that yourself but you need to find that out yourself. You need to be very committed to it. But to spend the money to have someone find it for you, I'm not sure that its worth it.

A: What type of people have made up your development group here? You are a planner and you have some realtors, does a lawyer figure prominently?

K: No.

A: An accountant?

K: Certainly lawyers have been involved but nothing in particularly. Accountants have been involved to set up the initial structure of the company. Very little contact since except for financial statements and that sort of thing. I wouldn't consider those professions to be very heavily involved in the planning or development process.

A: So who do you consider important?

K: I think the engineer is the most critical to the process. I think had we known how over the years we would need as much attention from an engineer we probably would

have gone in house with that. We did a little bit of that initially, we had a graduate planning student that had a civil engineering background, his father was a civil. Together we did much more detailed planning drawings that were preliminary engineering drawings and we probably saved some time, I don't know how much, but we saved some time in the process. We didn't go over as much detail for the engineers but by the time it was turned over it was ready to be worked on.

A: Is there some profession that you would like to see or have a consultant do because it is not provided in the industry already?

K: No, I don't see any.

A: Where do you see the greatest risks in the process of real estate development? Was it that you had to personally sign on the notes?

K: No, it may have bothered some of the other people involved. I don't think they ever felt close to personal financial risk in this project. A lot of them had already been there. The value of what we have here is much more than....[inaudible]. The biggest risk is that you build the wrong product or you develop a subdivision of the wrong thing. You guess wrong. You have to sit with it for a long time and lose the potential profit on it. Fortunately we haven't had to do that. Builders and developers do that, they miss the market, they just miss, they don't adjust, they don't know how to adjust or whatever it is they don't do it, and they bankrupt a project.

A: How do you avoid that problem?

K: I think you get as much information as you possibly can from the people that have the contact with the market. The people here are real estate people that we rely on heavily to tell us what's happening out there. To some extent you have to direct the market too. People don't come in and describe the product that they want always, you have to help them along with it. We do take some risks and sometimes we drop the ball, its not exactly what they expected. Some of our cluster homes and our zero lot line homes have no model in Gainesville. We've developed in a different way than other developers have been developing and the market responded. But most of that comes from some market [appreciation]. Even though we like what we're developing we try not to develop what we like, but to the market.

[End of side 2]

A: Was one of the ways you limited your risk of exposure to governmental regulations going through the DRI process?

K: Yeah, the DRI process is time consuming and expensive process that you have to go through. You're subjected to regulations and review that the developer that might develop 100 lots per year for 10 years and do the equivalent development piecemeal isn't subjected to. Doesn't have the same kind of review and environmental controls and that sort of thing that you subject yourself to. But the benefit, I think to a developer, is that you do have some vested rights that will permit you then to develop under the same set of standards, the same rules, as you develop your project you're not subjected to constantly changing zoning regulations and different ordinances and whatever other planning controls the county might come up with for a piecemeal development. You're permitted to establish your own standards as a planned community and then live by them. The county and other planning officials enforce them but you participated in them, in establishing the standard. I think that's been important, if you had to go out and look at new property every year or every other year to do a new project with new standards and new predictions that would be a real set back for yourself.

A: Do you see any risks in economic factors of the community or the nation?

K: Always.

A: You had initially said that you liked Gainesville and Tallahassee because of the universities there....

K: That's still true. The government employment in both of those communities, especially for us, Gainesville, has helped Gainesville through the recessions we've had since the project was started. Unemployment has been relatively low and the impact, the greatest impact has been the cutbacks at the university, from the university employment and the more controlled growth of the university. In the late seventies the university was growing at a fast rate and didn't have a cap on enrollment and that sort of thing. But we're still happy to have controlled growth, the slower pace of controlled growth that Gainesville has over other markets. At times there has been much stronger growth and in migration than we've been able to plan. We do it a little more carefully and a little more definitely than we would for some other markets.

A: Gainesville itself talks about the university being a problem because they don't pay property taxes but you see them as your main support of the home buyers around here?

K: Sure, the medical center and the university are a big part of that base. Property taxes are a problem, in Alachua County they are the highest in the state. That probably has kept the retirees, that might be coming from fairly high taxing states in the northeast, for instance New England, New York. Property taxes in Alachua County are probably higher than they are in places on Long Island.

A: Do you feel you have a good relationship with local government regulators?

K: Yes.

A: You said you were vested, you don't have any problems with environmental regulations or concurrency or things like that?

K: No, we had just undergone some review or revisiting of environmental information for our golf course. That's all permitted and settled, we still have one more public hearing to finalize that process with the golf course. So far everybody has been very cooperative. We have a good relationship with them.

A: You acquired a piece of property adjacent to yours, was there any problems in that?

K: We will probably go through portions, if not all the DRI process on that property. We have just gone through the planning work, we just finished the environmental study, and we're doing some archeological studies and that sort of thing.

A: Are you in an option period on that now?

K: Part of it is option, part of it is normal. We won't have all the property for another two years.

A: Originally when you started you had some problems with NIMBY's, the Not In My Back Yard types, have you had any since?

K: No.

A: You do have a home owner's association within Haile Plantation, have they factored in at all?

K: The [unintelligible] home owners association is the first association, we turned over control of that to the home owners when we had about 850 homes completed. Now they manage and operate that completely independently. I was the director of that association for four years after we turned

over control to them and still have close contact to the directors and officers of the association. They're very cooperative and easy for us to work with. We have since formed a new association for the rest of the development and we still control and operate that. We publish a joint newsletter for both associations. We try as best we can to make all that transparent to the residents and have basically a community feeling rather than two separate associations and all that. We don't play that up too much but it works pretty well. There have been no problems. You hear all those horror stories about other developments with developers being sued and home owners associations being unhappy but fortunately we're able to stay involved with the people and we have a good relationship. Most of us that develop here and work here, live here also.

A: That's the conclusion of my formal questions, is there any thing that you would like to add that we didn't get to discuss?

K: Well, just that the general direction about planning. We're focusing now more on commercial than we had in the past. Our commercial development, the village center, we call it here in Haile Plantation, is something new for Haile Plantation. It has taken many years to build up the residential base so that we could begin some commercial development. We think that's an essential part of building a community and we're anxious to get that underway. We just started that and I think that the communities that are developed as strictly residential communities, without the support that comes with having some self sufficiency in terms of commercial services that go along with it, are sort of incomplete. I think that's an important direction. There's been a lot of that kind of thing done with the traditional neighborhood planning that's being done right now. We're kind of a compromise, we're not traditional but our village center gives it much more of that feel. That's an essential part of it.

A: Are you looking at any schools?

K: No, the schools are being built on adjacent property. We had originally set aside a school site for both an elementary and a middle school. But the school board has property adjacent to us and has built one elementary school. Part of the property we acquired to the north we sold to the school board as a school site, at a reduced price for an elementary school, and now they're going to build their middle school on property adjacent to the school.

A: Is there anything else?

K: No, that's it.

[End of interview]

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